ECONOMIC SECURITY FOR THE AGED
IN THE UNITED STATES AND CANADA

A SUMMARY

by

George M. Hougham
Research Director
Canadian Welfare Council

of the report by Dr. Robert M. Clark
prepared for the Government of Canada
and tabled in the House of Commons, March 5, 1959

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Preface

Under Order in Council P.C. 1958-8/307 of February 25, 1958, Dr. Robert M. Clark, Professor of Economics at the University of British Columbia, was required:

> to conduct an inquiry into facts relating to the old age security systems presently in effect in Canada and the United States of America with particular reference to those features of the old age and survivors insurance program in the United States of America, which make it possible for higher benefits to be paid covering a wider range of contingencies at an earlier age than is provided under present legislation, and to report thereon as soon as may be possible.

Dr. Clark's report was submitted to the Minister of National Health and Welfare on February 17, 1959 and tabled in the House of Commons on March 5.

The present document is an unofficial summary of that report, first prepared at the request of the Board of Governors of the Canadian Welfare Council and now issued for interested individuals and groups who might not find it possible to give detailed study to the full text of the original.

A summary of any document involves a selective process which, in turn, requires the exercise of judgment. Judgment must be brought to bear in at least two respects. Decisions must be made regarding what to include and what to leave out. Second, a great deal of what is included must be abbreviated or compressed.

If the result is to be a summary rather than something else, the obligation is to attempt to be faithful to the purpose and intent of the author of the original document. In this respect, the report which follows can claim to be a summary in two important senses. First, in deciding what to leave out, what to abbreviate and what to include in full, the writer has made every effort to avoid introducing his own judgment or opinions as to what is important in assessing economic security programs for the aged in the United States and Canada. The analysis constitutes, as far as possible, an accurate and objective reflection of the Clark Report. By the same token, every effort has been made to avoid additions to the original document by way of fact, comment or interpretation.

In two other respects the material which follows may not be regarded as a summary. Dr. Clark's terms of reference are set forth above. As he notes at several points in his report, Dr. Clark construed these terms of reference to preclude "recommendations" or "conclusions". However, the final chapter of the report, entitled Postscript, does bring together in summary fashion a number of findings and comments bearing directly on the specific questions raised by the terms of reference. It seemed useful in the present document to place this material at the beginning instead of at the end (see Section I: Findings and Comments).

The second sense in which this document is not a summary also relates to the order of presentation. A substantial portion of the document does not follow the same sequence as the Clark Report. Specifically, it seemed desirable to outline and compare American and Canadian programs of economic security for the aged as far as possible feature by feature rather than, as in the original, largely to describe the programs of one country and then the equivalent or comparable programs of the other. The result is to provide a somewhat different form of organization without, it is hoped, doing violence to Dr. Clark's material.

In some instances, the material which follows has been taken directly from the Clark Report. In others, the process of summarizing made it necessary to paraphrase Dr. Clark's presentation and to add linking phrases and interpretative paragraphs. The following procedures were adopted to help avoid confusion with respect to this problem:

1. No acknowledgement is made for material taken verbatim from Dr. Clark's own writing, i.e. no quotation marks are used.

2. On the other hand, quotations in the Clark Report which have been used in the summary are enclosed in quotation marks or indented and the source identified.

3. Opinions expressed in the summary are those of Dr. Clark, as understood by the author. They are specifically identified with Dr. Clark only in the occasional instance where the context would otherwise make the source doubtful.

October 1959 George M. Hougham

SECTION I

FINDINGS AND COMMENTS

A. Some Comparisons of Canadian and U.S. Government Programs for the Aged

1) The U.S. program covers a wider range of contingencies than the Canadian in that it provides dependent, survivor and disability, as well as old age, benefits on a non-means test basis.

2) The U.S. program provides old age benefits at an earlier age. Subject to a retirement test which applies until age 72, it pays old age benefits to retired male workers as early as age 65 and, on an actuarially discounted basis, to retired female workers as early as age 62.[1]

3) Between 1949 and 1957, the percentage of the employed labour force contributing to Old Age, Survivors and Disability Insurance[2] in the United States increased from 56 to 85. As the program has matured and with amendments to the legislation, the proportion of those over age 65 in receipt of old age and related[3] benefits has increased steadily since 1940.

With minor exceptions, everyone in Canada age 70 and over who meets the residence requirements is eligible for the old age security benefit.

4) Old Age Assistance, payable in the U.S. to eligible persons 65 and over, has been paid to a steadily declining proportion of those in this age group. In 1957, 16.5% of those age 65 and over were in receipt of old age assistance. Old Age Assistance, payable in Canada to the 65-69 age group, has been paid to about 20% of those in this age group from 1953 to 1958. The American and Canadian percentages are not directly comparable, however, as American recipients of old age insurance benefits are eligible for old age assistance whereas, in Canada, there is no overlapping between the two.

5) Of the population age 65 or over, the proportion in the U.S. in receipt of assistance or pension or both has increased from 44% in December 1952 to 68% in December 1957. In Canada, the equivalent increase between March 1952 and March 1958 was from 61% to 72%. Thus the differential in favour of Canada has been decreasing fairly rapidly.

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[1] Editor's Note: The U.S. program includes benefits to other persons who may be aged (see footnote 3 below). Where the term "old age benefits" is used in this summary, however, it refers, as in the Clark Report, only to old age benefits for retired male or female workers.

[2] For the sake of brevity, the American program of Old Age, Survivors and Disability Insurance is referred to hereafter in this summary as O.A.S. and D.I.

[3] Specifically, the number in receipt of wife's, husband's, widow's, widower's, and parent's, as well as old age, benefits.

6) In December 1957, average monthly benefits under O.A.S. and D.I. were as follows:

	$
Old Age benefits	
Retired male workers	70.47
Retired female workers	52.23
All retired workers	64.58
Dependent Wives benefits	
Wives under age 65 with at least one child beneficiary in their care	24.21
Wives age 62 and over with no child beneficiary in their care	34.89
All wives	34.41
Survivor benefits	
Widows, age 62 and over	51.09
Widowed mothers with at least one child beneficiary in their care	49.05
Children (under age 18) of deceased workers	40.78
Disability benefits	72.76

The comparable Canadian figures for the universal flat rate pension are $55 a month for a single person and $110 a month for a married couple. However, the comparison requires at least three qualifications:

a) From January, 1959, all benefits under O.A.S. and D.I. increased by about 7%.[1]

b) The Canadian average per capita income level is about 30% lower than the U.S.

c) Under the U.S. program, there is a broad range around the various average payments. For example, in December 1957, 14% of those receiving retirement benefits were paid $30 a month or slightly less while 4% received the maximum of $108.50.

[1] Editor's Note: Although complete figures reflecting the 7% increase are not readily available, the average old age benefit for all retired workers in January 1959 was $71.40.

7) In terms of national average personal income, Canadian old age benefits compared favourably with U.S. benefits for retired workers as of 1958. The Canadian benefit was 47% of average personal income whereas the U.S. minimum, average and maximum benefits were 18, 39 and 65 per cent respectively.

Again, however, the comparison requires qualifications:

a) From January 1959, as just noted, benefits under O.A.S. and D.I. increased by about 7%.

b) Under previous and present formulae, O.A.S. and D.I. benefits will continue to increase slowly for several years.

8) The taxes under the two programs are as follows:

a) U.S. - The 1958 rates of 2-1/4% on employees and employers and 3-3/8% on the self-employed will rise to 4-1/2% and 6-3/4% respectively by 1969, with no change in the benefit formula during that interval.

b) Canada - The taxes to finance the program are a 2% personal income tax on the first $3,000 of taxable income, a 2% corporate income tax, and a 2% sales tax[1].

9) The U.S. program, unlike the Canadian, has been and is expected to continue to be fully self supporting.

10) It is impossible to compare the tax burdens precisely because of different methods of financing and because of the difficulty of estimating with any real precision the extent of tax burden shifting.

B. The Task Ahead

1) There is a strong case both for and against a Canadian contributory program with variable benefits.

2) The issues involved are complex and the sums involved vast in any major changes in legislation. The importance of allowing ample time for preparation and consideration of any new legislation is obvious.

3) Even if the Canadian people were prepared to allocate a substantially higher proportion of their national income, the range of benefits above a flat rate minimum that could be paid in the next decade under a Canadian contributory program would be significantly less than those that will be paid in the U.S. for three reasons:

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[1] Editor's Note: This so-called 2-2-2 formula was increased to 3-3-3 in the 1959 federal budget.

a) Benefits under any contributory program in which benefit levels are even approximately related to contributions build up rather slowly.

b) The Canadian contributory program would presumably begin above the present $55 a month. After 22 years of operation, the U.S. minimum for retired workers (excluding those females who retired prior to age 65) in 1959 was $33 a month.

c) The average Canadian per capita income is about 30% lower than the U.S.

4) In the event of a contributory program with variable benefits, the prior preparation of detailed estimates of expected benefits and of various means of paying for them is essential. It would be important to consider other possibilities also because there are a variety of alternatives between the current Canadian and U.S. programs. The experience of Great Britain and other countries in this connection may well offer useful ideas.

SECTION II

DEFINITIONS AND COMPARISONS

As a preface to detailed analysis of the U.S. and Canadian old age security programs, it is necessary to define social security, to compare and contrast private and social insurance and to discuss the meaning of actuarial soundness and of a contributory pension or old age insurance program.

A. Social Security

Lord Beveridge has defined social security as:

> the securing of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement through age, to provide against loss of support by the death of another person, and to meet exceptional expenditures, such as those connected with birth, death and marriage. Primarily social security means security of income up to a minimum, but the provision of an income should be associated with treatment designed to bring the interruption of earnings to an end as soon as possible.

Measures to provide social security, as so defined, include private insurance and social insurance. Both are supplemented by other income maintenance or public assistance programs. As the Canadian Welfare Council observed in this connection in its 1958 policy statement on social security:

> the basic function of public assistance should be to serve as a residual resource for people in need who are insufficiently cared for through other programs or who slip through the meshes of their provisions. Public assistance is the final guarantee that such people shall not lack the necessities of life.

B. Private and Social Insurance

Similarities

The similarities between private and social insurance are as follows:

1. Both are based essentially on the pooling of definable risks over a large statistical population.

2. While the nature of the relationship between premiums and benefits usually differs, both require the payment of premiums or contributions.

3. The payment of predetermined benefits depends on the occurrence of specified contingencies (e.g. age, sickness) rather than on demonstration of individual need.

4. The provision of benefits is advantageous not only to the recipient but to other insured persons and the society as a whole.

5. Both are undermined by inflation.

Differences

The differences between private and social insurance are as follows:

1. Because of different objectives, private insurance is usually voluntary while social insurance is compulsory. Employee pension plans may be either voluntary or compulsory and many of them have both voluntary and compulsory elements.

2. Because of different objectives, the relationship between premiums or contributions and benefits is usually different in private and social insurance.

In private insurance, a given premium buys the same amount of protection within any group. Social insurance tends to give more consideration to needs of society as a whole than to equity among individuals. Consequently, social insurance frequently has an element of subsidy either from outside the system, or within it, or both.

3. Although both private and social insurance involve a redistribution of income or assets, the nature of the redistribution is different.

Both forms of insurance redistribute between those not subject to the insured contingency and those who have become subject to it. But social insurance usually involves redistribution of another sort - generally favouring women as compared with men, families as compared with individuals and lower income groups as compared with higher income groups. This kind of redistribution may be accomplished through differential tax (contribution) rates, differential benefits, or a combination of the two.

4. Whereas the insured person pays the entire cost of the premium under most forms of private insurance, contributions by the employer as well as the employee are customary in social insurance (as in employee pension plans).

There are, according to Lord Beveridge, three arguments for employer contributions in social insurance:

a) It is in the employer's interest that employees should have security.

b) Employers should be concerned for the welfare of their employees.

c) Contributions give employers a definite status for making representations as to the administration of social insurance and its possible improvement.

Some economists, by contrast, have questioned the validity of employer contributions because employers may attempt, with varying degrees of success, to pass on in a variety of ways the burden of such contributions.

5. Private insurance is a competitive business; social insurance usually is operated by government as a monopoly.

The following arguments are advanced for excluding private insurance organizations from the social insurance field:

a) If coverage is compulsory for most broad categories of the population, selling costs associated with voluntary coverage and competition are avoided.

b) If coverage is to be virtually universal as well as compulsory, a state monopoly reduces the problem of ensuring that people do comply.

c) If private insurance organizations are permitted to compete with the state under a program requiring compulsory coverage, selling costs will increase. Expenses of regulation would also be involved since the government would be obliged to regulate firms competing with it in the social insurance field.

d) Permitting private organizations to compete with the state is likely to make it more difficult to amend the legislation to provide more generous benefits. This was apparently the British experience with "contracting out" under health insurance prior to 1948.

e) Some people object to even the possibility of a profit in the social insurance field. They believe that the service should be provided at the lowest possible cost and that, in the long run, this is best achieved without the profit motive.

6. Costs are usually more predictable in private insurance than in social insurance.

The reasons for this are:

a) Most forms of social insurance are relatively new whereas private insurance, being older, has a longer experience to draw on in predicting the relevant hazards.

b) The major forms of private insurance deal with kinds of risks which are capable of being calculated within closer limits than the risks in social insurance.

c) With rare exceptions, the liabilities in private insurance policies are limited in terms of fixed dollar amounts. This is less likely to be true in social insurance. Under the U.S. old age pension program, for example, the amount of an insured person's pension depends on when he chooses to retire, his family status, and the amount of his earnings in a stipulated period before retirement.

In this respect, employee pension plans are similar to social insurance.

7. The benefits under private insurance are based on legally binding contracts between an insurance company and the purchaser. The benefits under social insurance are not the subject of contractual guarantees, but are open to legislative modification.

8. The objectives and methods of achieving them in private insurance are the subject of the widest agreement, with the possible exception of the problem of coping with inflation. In social insurance, differences of opinion as to objectives and the best methods of accomplishing them are widespread.

In private insurance, both the premiums charged and the benefits paid have become stabilized to a substantial degree. Changes in social insurance, by contrast, are frequent and sometimes drastic, especially in the early development of a program.

9. The financial implications of private and social insurance are very different.

Private insurance must operate on a basis that is financially self-sustaining, which partly explains the fact that life insurance companies are probably the most closely regulated of all types of business. A social insurance system is different in several essential respects:

a) It is invariably set up on the assumption that its operations will be permanent.

b) If revenues of a compulsory social insurance system are inadequate, it is always possible, within political and economic limits, to increase the contribution rates.

A highly significant difference between social insurance and private insurance results from these distinctions. A private insurance company must operate on the basis of reserves large enough to produce a revenue that in conjunction with premiums to be received will fully provide, even though no more new policy holders are acquired, for discharging liabilities to policy holders, for meeting administrative expenses, and for leaving a small margin of surplus. A compulsory government insurance system does not need to build up reserves of anything like this magnitude. Just what size of reserve is desirable is, in fact, open to debate.

10. Except in time of war, the reserves of private insurance companies are largely channelled into different investments than those of social insurance systems.

While subject to regulation as to the type of investments they may make, private insurance companies invest in a far wider range of assets than is common for social insurance funds. In Canada and the United States, the funds of social insurance programs are invested exclusively in securities

issued or guaranteed by governments. These securities are not revenue producing in the sense that corporate securities or securities of some crown corporations are. This means that the maintenance of financial soundness in a social insurance program does not depend primarily on the productivity of the fund's investments. Rather, it depends in the first instance on the power to tax, and ultimately on the productivity of the nation (an economic limit) and the willingness of the electorate to pay the taxes (a political limit).

11. While both private and social insurance benefits are undermined by inflation, private insurance and annuities are likely to be more adversely affected than social insurance.

The effect of inflation is different in two respects:

a) With a more limited trust fund, a social insurance system has a relatively small volume of assets to be eroded away by inflation.

b) Private insurance retirement benefits and annuities cannot be adjusted to compensate for a decline in the value of the dollar. (The so-called variable annuity represents an attempt to meet this problem). A government, by contrast, can add to the benefits of those already retired by imposing additional taxes.

C. Actuarial Soundness

The actuarial soundness of a pension program is ultimately a question of judgment by a qualified expert, an actuary. There is no yardstick of actuarial soundness which would apply to all pension plans, or which would be agreed on by all actuaries for the same pension plan. There would probably be general agreement, however, that the definition of actuarial soundness should be different for private and social insurance programs.

A prominent American actuary, Mr. Dorrance Bronson, has defined actuarial soundness in a private pension plan as follows:

> An actuarially sound plan is one where the employer is well informed as to the future cost potential and arranges for meeting those costs through a trust fund or insured contract on a scientific, orderly program of funding under which, should the plan terminate at any time, the then pensioners would be secure in their pensions and the then active employees would find an equity in the fund assets commensurate with their accrued pensions for service from the plan's inception up to the date of termination of the plan.

A much less stringent definition of actuarial soundness is appropriate for a social insurance program because:

1) It is assumed that a government program will operate in perpetuity. There is, therefore, no need to arrange the

finances of the program so that it can discharge in a given period - say a year - all its accrued liabilities.

2) Because the system is compulsory, employers and employees cannot decide to cease their contributions.

3) A social insurance program does not need to rely on the return from invested funds to nearly the same extent as a private pension program because the legislative body has the power to raise the tax (contribution) rates or to subsidize the program from general revenues.

4) The assumptions of perpetual operation, the power to require participation and the power to tax (and change the tax rate) means that future participants may be taken into consideration on a basis where the value of their contributions exceeds the value of their benefits.

This possibility of net revenue from future participants is a most important difference between social and private insurance. It explains why a social insurance program may:

a) be actuarially sound even though it is operated with a very limited trust fund;

b) provide a subsidy for all or most of its current members, in the sense that the value of their benefits exceeds their prior contributions;

c) be adjusted from to time to take into account rising wage rates and consumer spending, which reflect inflation and rising standards of living.

The above differences are reflected to some extent in the definition of actuarial soundness of O.A.S. and D.I. by Mr. Robert Myers, the chief actuary of the program:

> It may be said that the . . . system is actuarially sound if it is in actuarial balance - that is, if future contribution income plus future interest receipts will support the outgo for benefits and administrative expenses over the long-run.

Although many experts have accepted this definition, a few argue that it should include specific reference to a trust fund at least large enough to constitute a contingency fund in the event of years of depression.

D. A Contributory Pension Program

Broadly speaking, all pensions may be regarded as contributory. The following two programs illustrate the sense in which this is so:

1. A private pension plan where the entire cost is borne in the first instance by the employer may be regarded as contributory because the employees are contributing indirectly to the extent that:

a) their wages or other benefits are lower than they otherwise would be because the employer is paying the full cost of the pensions;

b) they buy the firm's product and the pension cost has been passed on in the price of the product.

2. A government old age pension program financed entirely out of consolidated revenues may be regarded as contributory in the sense that individuals contribute to the cost whenever they pay a tax whose proceeds go into the consolidated revenue fund.

In their Report on Old Age Security, 1950, the Joint Committee of the Senate and House of Commons favored "the contributory principle, not only because of the importance of this in raising total moneys required, but also because of the importance of establishing a close association in the mind of the individual between his contribution to the cost and the ultimate benefit he is to receive". Although the Committee did not define what they meant by the contributory principle in their report, the above quotation suggests that they regarded a pension program as contributory if a significant fraction of the cost is paid by the bulk of the working population in such a way that they are definitely aware that they are paying for part of the program.

For purposes of this report, however, contributory is defined more narrowly as follows:

> A government pension program is contributory if the pension is only available to persons or their dependents who have paid identifiable contributions either of a specified amount or at a specified rate or rates on covered income.

A contributory program commonly has two additional characteristics:

a) receipt of benefits is conditional on a specified minimum contribution record;

b) the relationship of pension benefits to contributions is positive and sufficiently marked to justify the cost of maintaining records of individual contributions.

The second characteristic is not an essential part of the definition, however, because it is possible to finance a flat rate pension as well as graduated pension benefits out of a segregated tax on earnings without any exemptions.

Under the above definition, the American O.A.S. and D.I. is a contributory program, but the Canadian universal flat rate pension is not.

SECTION III

COMPARISON OF AMERICAN OLD AGE, SURVIVORS AND DISABILITY INSURANCE AND THE CANADIAN OLD AGE PENSION

A. Historical Development

United States

The American program which is outlined in this and the following section contains two major elements:

1) A federally administered compulsory system of wage-related old age, survivor and disability benefits, financed by a payroll tax and a tax on earnings in covered employment. The old age pension is payable at age 72 or, subject to a retirement test, at age 65.

2) Federal grants-in-aid to all states with an approved needs test old age assistance program for those 65 and over (see Section IV, A, below)[1].

The federal old age insurance program and the federal grants-in-aid for state old age assistance programs were established under the Social Security Act, 1935[2]. Prior to that date, there was no federal pension program for the aged in the United States; over two-thirds of the American states had no programs either; and the remaining states had only very restricted ones. The old age benefit established by the 1935 Act first became payable in 1940. Amendments to the 1935 Act have broadened the program to include survivor benefits, also first payable in 1940, and disability benefits, first payable in 1957.

Canada

The Canadian program which is outlined in this and the following section contains four major elements:

1) A universal flat rate pension payable at age 70 to everyone (with minor exceptions) who meets the residence requirements.

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1 As in Canada (see Section IV, B, below), there are also programs of federal grants for state-administered blindness allowances and disability allowances.

2 The 1935 bill included two further features which were rejected:

a) A federal program offering annuities for sale in competition with insurance companies.

b) An arrangement to allow "contracting out", i.e. exemption from the compulsory contributory old age pension program for employee pension plans providing more generous benefits.

In addition to the old age programs, the Social Security Act 1935 established a state-administered unemployment insurance system.

2) Federal sharing of 50% of the cost of provincially-administered means test old age assistance for persons age 65 to 69 (see Section IV, A, below).

3) Provincially-administered disability, blindness and supplementary old age allowances, with federal sharing under stated conditions, of 50 or 75% of the cost (see Section IV, B and C, below).

4) A federal program offering annuities for sale in competition with insurance companies (see Section IV, D, below).

The Canadian universal flat rate pension was introduced by the Old Age Security Act, 1951. The provincial old age assistance programs began under the Old Age Assistance Act, 1951. These two programs replaced a program which had been established by the Old Age Pensions Act, 1927 and which provided for provincially-administered means test pensions for persons aged 70 and over, with 50% federal sharing of cost (raised to 75% in 1931). Federal sharing of the cost of disability allowances is under the Disabled Persons Act, 1954. Federal sharing of the cost of blindness allowances is under the Blind Persons Act, 1952. Supplementary old age allowances, paid only in certain provinces, have been introduced at various times since 1942. The federal old age annuity program was established by the Government Annuities Act, 1908.

B. Coverage: Contributions

United States

In September 1957 nearly 85% of persons in paid employment were contributing under O.A.S. and D.I. Generally, all employers, wage and salary workers and the self-employed contribute on a compulsory basis. The contributions are in the form of a payroll tax or a tax on earnings.

The fact that some 15% of those in paid employment were not contributing in September 1957 is due to the following:

a) Some persons, especially those in part-time or irregular work, did not earn enough to meet the requirements for coverage. For example, 30% of 2 million farm workers and almost 40% of household workers had insufficient earnings. Some 20% of the self-employed, other than farm operators and clergymen, likewise did not earn enough. (Yet the minimums are low. A farm worker, for example, contributes if he is paid $150 or more in cash wages in a calendar year, or if he works 20 or more days in a calendar year for a farm employer for cash wages calculated on a time basis. A household worker contributes if he or she received $50 in cash wages in any calendar quarter. Farm operators and other self-employed persons contribute if their net earnings from all self-employment are at least $400 a year).

b) Contributions are optional (i.e. by individual or group "election") for employees of state and local governments and non-profit institutions and for clergymen.

c) Most employees of the federal government, railroad employees, and self-employed doctors are excluded from contributions and coverage. (Federal government and railroad employees have their own programs. Railroad employees are guaranteed benefits at least as generous as those under O.A.S. and D.I. In excluding self-employed doctors, the Congress appears to have been influenced by the opposition to coverage of the American Medical Association.)

Other categories which are specifically excluded from contributions and coverage include persons whose income is not obtained from employment, elected federal officials, employees of foreign governments, police and firemen in most states and municipalities, newsboys, persons working for another member of the same family, and foreign agricultural workers in the United States on temporary contract. An unemployed person does not make contributions.

Canada

The definition of a contributory program for purposes of this report is set out above (see Section II, D). Within this definition, the Canadian program is not of course contributory. (For Canadian contributions in the sense of liability to the taxes by which the old age pension is financed, see Section E, below, "Financing".)

C. Benefits: Residence and Citizenship Requirements

United States

Generally speaking, citizenship and residence are not required in order to draw benefits under O.A.S. and D.I. There are two exceptions:

a) Benefits are not payable to a person who has been deported.

b) Benefit payments to aliens who have been outside the United States for more than six months are suspended under certain conditions unless the alien is a citizen of a country that has a pension system under which an American citizen can return to the United States and continue to draw benefits from the other country. However, the benefit payments are not suspended if the alien beneficiary has at least 40 quarters of coverage (see Section D, below) or has lived in the United States for at least 10 years.

Canada

Although the Canadian flat rate pension program does not require citizenship, it does include the following residence provisions:

1. (a) An applicant for the pension must have resided in Canada for at least 10 years (prior to a 1957 amendment, 20 years) immediately preceding approval of his application.

   (b) Or an applicant must have resided in Canada, prior to the 10-year period, for at least double the time by which he falls short of the 10-year requirement; and he must have one year's

residence immediately preceding approval of his application. (Certain temporary absences are excluded in applying these requirements).

2. The pension ceases if the recipient leaves Canada for more than a month. If the recipient returns to Canada, the pension becomes payable again and retroactive payments can also be claimed for the period of absence. However, the provision for retroactive payment applies only to absences of less than 6 months' duration in any one calendar year.

There is difference of opinion concerning both these residence requirements. The original requirement of 20 years' residence was suggested by the 1950 Joint Parliamentary Committee. The Committee argued that it is not unreasonable, in a program with no citizenship requirement and under which no record of contributions is required, that an applicant should live in Canada for a fair part of his earning years and make the contributions demanded of him.

The second residence requirement is more controversial. The arguments against it are:

1. Since a recipient is free to move about in Canada, he should also be free to go outside the country, particularly if necessary for health reasons.

2. A person who has lived in Canada and paid whatever taxes were levied on him has thereby established a right to the pension, wherever he may choose to live.

3. More specifically, the recipient has earned the pension by paying, directly or indirectly, one or more of the three earmarked taxes for the program.

The arguments in support of it are:

1. The mere payment of taxes does not establish any rights.

2. The government should not pay pensions to former residents who have not paid, through direct and indirect taxes, for a substantial part of the benefits they might receive. (The validity of this argument of course diminishes as the government continues over the years to collect taxes to pay for the program).

3. Without a residence provision, many thousands of Canadians would migrate to countries with less severe winter climate. (This objection does not carry much weight since, once the typical pensioner has largely paid the equivalent of the value of the pension, he can claim with some justification that he should be entitled to the pension regardless of where he lives).

4. It is administratively difficult to keep track of recipients who leave the country. (Since private pensions, pensions to civil servants, and veterans' pensions are paid to non-residents, this objection does not carry much weight either).

D. Benefits: Other Conditions and Amount

United States

a) Introduction

The U.S. contributory program is, of course, broader in scope than the Canadian flat rate pension, including old age and disability benefits and benefits to dependents and survivors of those covered under the old age and disability programs.

The right to receive benefits depends on the degree of coverage attained (the "insured status") and, for all beneficiaries except the disabled, in certain circumstances on meeting a retirement test. The amount of old age benefit is calculated by formula from the "average monthly wage" of the worker. All benefits, including those payable to dependents and survivors, can be related in amount to the old age benefit. Where a covered worker dies before retiring, a benefit is calculated as though he had reached retirement age at time of death.

b) Insured Status

Eligibility under the U.S. program requires a certain amount of work in insured employment and, consequently, of contributions. The basic unit of measurement in this respect is the (calendar) quarter.

A quarter of coverage in covered employment is as follows:

1) Most workers earn a quarter of coverage for every quarter in which at least $50 is paid in salary and wages. However, when a worker earns $4800 or more in a year, he is credited with 4 quarters, regardless of when in the year the $4800 was earned.

2) A farm worker earns one quarter of coverage, to a maximum of four per year, for every $100 in cash wages he receives per year.

3) A self-employed person earns 4 quarters of coverage if he has net earnings during the year of at least $400. If net earnings are less than $400, he does not earn any quarters of coverage.

At any given time a worker has "fully insured status" if he has coverage in one-half of the calendar quarters since 1936 or age 21. A minimum of six quarters of coverage is also required. Forty quarters (10 years) of coverage, no matter when earned, provides "permanent" fully insured status, in which case the worker can never lose his fully insured status regardless of his subsequent employment record.

A worker may continue to work past the minimum retirement age (men - 65; women - 62) in order to acquire fully insured status.

A worker who becomes totally and permanently disabled[1] prior to age 65 may apply to have his wage record "frozen". If the application is approved, the period of disability is excluded in determining the number of quarters required for insured status and in calculating the "average monthly wage" (see below).

Where evidence of recent attachment to the program or "currently insured status" is required, a worker must have coverage in at least 6 of the 13 quarters immediately preceding the contingency (retirement or death).

Table I (see page 18) indicates the type(s) of insured status required for each type of benefit.

At January 1, 1957, approximately 34.9 million workers were permanently insured; 37.2 million workers were fully but not permanently insured; and 0.3 million workers were only currently insured. Not all of these 72.5 million workers were in covered employment at that date.

At January 1, 1958, 7.3 million out of 15.1 million persons over age 65 (49%) were fully insured. Of these 7.3 million, 5.9 million (81%) were receiving benefits. Earnings in employment was probably the major factor in keeping the other 1.4 million (19%) off the benefit roles.

c) Retirement Age

The old age benefit is payable at age 72 in any case or at age 65 if the worker meets the retirement test (see below). However, a woman may apply for benefit as early as age 62, subject to either of two conditions:

1) A woman worker who retires before age 65 has her basic benefit permanently reduced by 5/9 of 1% for each month by which her age is below 65 (6-2/3% per year). If she retires at 62, this means her permanent benefit is 80% of the basic benefit payable at age 65.

2) The wife of a worker in receipt of old age or disability benefit receives a wife's benefit (see Table III, page 21). If she draws this benefit before age 65, it is permanently reduced by 25/36 of 1% for each month her age is below 65 (8-1/3% per year). If she draws the benefit at age 62, this means her permanent benefit is 75% of the wife's benefit payable at age 65.

d) Retirement Test[2]

The retirement test relates to work and earnings in the period between the minimum retirement age (men - 65; women - 62) and age 72. The main features of the test are:

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[1] For statistical and other data on the disability provisions, see Appendix A.

[2] For statistical and other data on the effects of the retirement test, see Appendix B.

TABLE I O.A.S. and D.I. - COVERAGE REQUIRED FOR EACH BENEFIT

Benefit	Coverage Required
Retirement and Dependents' Benefits	
Worker, Wife or Children	Worker fully insured at retirement.
Dependent husband	Worker fully and currently insured at retirement.
Survivors' Benefits	
Widow age 62 or over	Worker fully insured at death.
Widow caring for child	Worker fully or currently insured at death.
Dependent child	Worker fully or currently insured at death.
Dependent widower	Worker fully and currently insured at death.
Dependent parent	Worker fully insured at death.
Lump-sum payment	Worker fully or currently insured at death.
Disability Benefit	Worker fully insured[a] and with 20 quarters of coverage in the 40 quarters immediately preceding the disability.
Disability Freeze	Worker fully insured[b] and with 20 quarters of coverage in the 40 quarters immediately preceding the disability.

[a] Prior to the 1958 amendments, currently insured status was also required.

[b] Change from currently insured to fully insured status made by 1958 amendments.

1. A beneficiary of the old age benefit may earn up to $1200 at any time in a year without having his or her old age benefit reduced.

2. One monthly old age benefit is lost for each $80 or fraction by which annual earnings exceed $1200. No benefit is lost, however, for any month in which a beneficiary earns $100 or less, no matter what he earns in other months.

3. Whenever a worker's old age benefit is so cancelled, any dependent benefit is also cancelled.

4. The test applies to a person receiving a dependent's benefit or a survivor's benefit as well as a worker's old age benefit.

5. The test applies to any beneficiary who works outside the U.S. and pays the social security tax. If such a beneficiary does not pay the tax, the rule, however, is that benefits are not payable for any month in which he works on seven or more days regardless of what he earns.

6. The test does not apply to recipients of disability benefits.

e) Average Monthly Wage

The average monthly wage, from which the amount of each type of benefit is derived, may be calculated in three different ways. The method most commonly used is the so-called "new start with drop-out", which operates as follows:

1) The earnings period in covered employment is from January 1951 to date of eligibility or, if later, the date of application for benefit.

2) The 5 years of lowest earnings during this period are dropped. Any period during which earnings were "frozen" under the disability provision may also be dropped.

3) The average monthly wage is the total earnings remaining in the period divided by the total months remaining, whether or not all the remaining months were in covered employment. However, the remaining months must total a minimum of 18.

The "drop-out" technique has the following significant implications:

1) It is to the obvious advantage of workers without continuous covered employment, whether by reason of unemployment or non-covered employment, and to those with periods of comparatively low earnings.

2) It relates benefits, in times of rising wages and salaries, more nearly to final earnings.

3) Its use alters, to the advantage of the worker, the ratio between total contributions and value of benefits. It thus weakens the positive relationship between benefits and contributions of a contributory program.

f) Calculation of Benefits

The amount of old age benefit payable at age 65 or later equals the worker's "primary insurance amount". The minimum such benefit is $33.00 a month; the maximum is $127.00 a month.[1] All other benefits may be expressed as a fraction of the old age benefit, as set forth in Table III (see page 21).

Like the average monthly wage, the primary insurance amount may be calculated in three different ways. Prior to January 1959, the primary insurance amount for an average monthly wage calculated by the "new start with drop-out" method described above was 55% of the first $110 of the average monthly wage plus 20% of the next $240.00.[2]

The formula for calculating the primary insurance amount of course favours workers with lower average monthly wages. Table II below illustrates this by showing, for selected wage levels, the old age benefit as a percentage of the average monthly wage.

TABLE II O.A.S. and D.I. - OLD AGE BENEFIT AS PERCENTAGE OF AVERAGE MONTHLY WAGE FOR MALES AND FEMALES AT AGE 65 AND OVER

Average Monthly Wage	Benefit as Percentage of Wage
$	%
50	66
100	59
150	49
200	42
250	38
300	35
350	33
400	32

[1] Editor's Note: Although the law provides that $127 a month is the maximum, it should be noted that this is not a current operative maximum because there is no provision for giving retroactive effect to the new contribution ceiling which this maximum requires.

[2] As of January 1959, the amounts as calculated by this formula were increased by 7%.

TABLE III O.A.S. and D.I. - RELATIONSHIP OF OTHER BENEFITS TO THE OLD AGE BENEFIT

Nature of Benefit	Amount of Benefit in Relation to Old Age Benefit
Disability Benefits	
Worker age 50 to 64	Same as Old Age Benefit
Benefits to Dependents of Retired of Disabled[a] Worker	
Wife[b] or dependent husband age 65 or more	One-half[b]
Mother of any age, with child under age 18 or disabled	One-half
Child, under age 18 or disabled	One-half
Survivor's Benefits	
Widow age 62 or more, or dependent widower age 65 or more	Three-quarters
Widowed mother of any age, with children under age 18 or disabled	Three-quarters
One child, under age 18 or disabled	Three-quarters
Two or more such children	One-half each plus one-quarter divided among them
Dependent mother age 62 or more, or dependent father age 65 or more	Three-quarters
Lump-sum payment	Three times[c]

[a] There were no benefits for the dependents of a recipient of a disability benefit prior to September 1958.

[b] Payable to a wife as early as age 62 but in an actuarially reduced amount.

[c] Subject to a maximum of $255.

Canada

The benefit level under the Canadian flat rate program, like that under the U.S. contributory program, has been increased over the years. Beginning at $40 a month in 1952, it was raised to $46 a month effective July 1957 and to $55 a month in November 1957. It has been payable from its inception at age 70. There is no retirement test in the Canadian program. Nor is there any equivalent of the other calculations which are outlined above and which are made necessary by the fact that, in the U.S., the program is contributory and wage related.

The Canadian flat rate pension program does not, of course, include disability benefits or benefits for dependents and survivors. (However, see Section IV below, especially B, "Canadian Disability and Blindness Allowances").

E. Financing

The main features in the financing of the U.S. program are as follows:

1) The revenue is derived partly from interest on trust fund investments and partly by taxing covered wages of employees, covered payrolls of employers, and covered earnings of the self-employed.

2) The ceiling on taxable income was $3000 in 1935. It has subsequently been raised several times and is currently $4800. The ceiling on self-employment income is likewise $4800, less any wages on which the tax is also payable. In 1938, only 3% of covered employees had earnings over the $3000 ceiling. In every year from 1948 to date, over 20% of covered employees have had earnings exceeding the ceiling.

During the past decade, the appropriate income ceiling has been a matter of controversy. Those who oppose substantial and frequent upward revisions of the ceiling argue that:

a) The function of the system is to provide a basic floor of protection.

b) As individuals rise in the income scale, they can and should provide added savings for old age for themselves.

c) Although adjustment of the ceiling for inflation is desirable in principle, the original ceiling was too high and is not, therefore, a fair starting point for comparisons.

Those who favour upward revision of the ceiling argue that:

a) The American public wants a program which provides more than subsistence-level pensions.

b) The logic of a contributory wage-related program is impaired if a substantial fraction of covered workers are earning above the income ceiling, because they do not get more benefits than those who are earning considerably less.

c) The tax burden is more equitably distributed with a high income ceiling.

Higher benefits can be provided, of course, by higher tax rates as well as by raising the income ceiling. Those who oppose higher pensions favour higher tax rates because it may be more difficult to raise taxes than the ceiling. Those who favour higher benefits prefer to raise both the ceiling and tax rates because the goal may be easier to achieve through both techniques rather than through tax increases alone.

3) The tax rate has always been the same for employers and employees. The rate for the self-employed has always been 3/4 of the combined rate for employers and employees.

4) The tax pattern under the original Social Security Act, 1935 - 2% on employers and employees at the beginning, rising to 6% in 1949 - represented a victory for the Secretary of the Treasury and a conservative group within the U.S. Cabinet. A more modest tax pattern under subsequent amendments constituted at least a partial rejection of the conservative viewpoint on financing the program. This controversy attracted more widespread attention than any other subsequent debate over the Social Security Act. Complex, and in some instances contradictory, arguments were advanced. But the controversy revolved essentially around:

   a) The size of trust fund required to support a compulsory contributory government program. (Should the fund be comparable to that required in private insurance or should it be more in the nature of a contingency fund?)

   b) The problem of management and investment of a very large trust fund, including the relationship with private investment opportunities.

   c) The extent to which early beneficiaries should be subsidized by taxes at progressively higher levels in later years.

   d) The extent to which the program should be subsidized from general revenues. (A 1937 proposal for a subsidy of 1/3 of the program's cost was rejected in 1939 and, to date, the program has had no federal subsidy whatever.)

5) As the range and levels of benefits have been increased over the years, present and proposed future tax rates have, of course, had to be increased. For the present and proposed future levels of benefits, for example, the combined rate for employers and employees is 5% of taxable employee earnings, rising to 9% in 1969. (Of the current 5%, 4-1/2% is for old age, survivors and related benefits; the other 1/2 of 1% is for disability benefits.)

Table IV (see page 24) provides an overall picture of the financial operation of the American program.

TABLE IV O.A.S. AND D.I. - OPERATIONS OF THE OLD AGE AND SURVIVORS INSURANCE TRUST FUND - 1940-1970

(In millions of dollars)

Calendar Year	Tax Revenues	Interest on Investments	Benefit Payments	Adminis-trative Expenses	Trust Fund
			Actual Data		
1940	637	43	35	26	2,031
1941	789	56	88	26	2,762
1942	1,012	72	131	28	3,688
1943	1,239	88	166	29	4,820
1944	1,316	107	209	29	6,005
1945	1,285	134	274	30	7,121
1946	1,295	152	378	40	8,150
1947	1,558	164	466	46	9,360
1948	1,688	281	556	51	10,722
1949	1,670	146	667	54	11,816
1950	2,671	257	961	61	13,721
1951	3,367	417	1,885	81	15,540
1952	3,819	365	2,194	88	17,442
1953	3,945	414	3,006	88	18,707
1954	5,163	468	3,670	92	20,576
1955	5,713	461	4,968	119	21,663
1956	6,172	531	5,715	132	22,519
1957	6,826	557	7,347	162	22,393
			Estimated Data (a)		
1958	7,297	565	8,318	156	21,656
1959	8,632	567	9,504	161	20,971
1960	10,621	590	10,027	166	21,794
1961	11,106	634	10,618	169	22,552
1962	11,256	672	11,207	172	22,902
1963	13,124	704	11,678	175	24,722
1964	13,652	761	12,016	178	26,784
1965	13,830	820	12,333	181	28,762
1970	19,404	1,406	15,030	201	50,330

(a) The estimated data are the intermediate cost estimates for these years on the assumption of high employment and rate of interest at 3 per cent except in the years 1958, 1959, 1960 and 1961, when the respective rates are 2.6, 2.7, 2.8 and 2.9 per cent.

Canada

The Canadian pension has been financed, to date, in two ways:

a) Earmarked taxes in the form of a 2% sales tax, a 2% tax on corporation income, and a 2% tax on taxable individual income with a ceiling on that income of $3000.[1]

b) Temporary loans or advances from consolidated revenue to cover deficits in the Old Age Security Fund.

When financing through earmarked taxes was proposed, there was no criticism in Parliament of the use of the personal and corporate income tax. Two criticisms were made, however. First, it was argued with regard to the personal income tax that ability to pay should govern and not, as implicit in the $3000 ceiling on taxable income, some modified form of a "benefits-received principle".[2] In the second place, it was argued that the third earmarked tax, the sales tax, is regressive in any case and, when applied at the manufacturers' level, tends to pyramid in its impact on consumer prices.

A number of other points and comments may be made with respect to the method of financing the Canadian program, including the following:

a) There is merit in the idea of attempting to establish a close association in the mind of the individual between his contribution to the cost and the ultimate benefit he is to receive, for three reasons:

(i) "The first incidence of any contribution to government or to any other recipient - church, family, or trade union - is of great psychological importance. Out of such incidence political influence arises, loyalty and responsibility are encouraged, and personal satisfaction and dignity are gained."[3]

(ii) It is only by being aware of the cost of various possible pension proposals that the people, through Parliament, can choose intelligently among them.

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[1] Editor's Note: Under the 1959 federal budget, as already noted, the 2-2-2 formula was increased to 3-3-3.

[2] An income ceiling sets an upper limit to the tax "contribution" which means a closer relationship between this contribution and the benefit received (the flat rate pension) that would otherwise be the case.

[3] Quoted from a 1956 address by Dean J. Douglas Brown of Princeton University.

(iii) Unless the cost of old age security to individual families is known to the public as a whole, many people are likely to demand more in pensions than they are prepared to pay for. This is particularly important because the program ranks second to national defence among federal expenditures and because population projections indicate increased cost as the proportion of the population over 70 increases.

b) The above reasons, taken together, make it important to make the public aware of the relation between costs and benefits under the program. There were several possible ways of achieving this result. The most promising approach, a self-supporting contributory program such as OAS and DI, was rejected. The second best approach, earmarked taxes which the public would be conscious of paying, was adopted. Roughly 2.23 million persons (approximately 44% of the Canadian labour force) paid personal income tax in 1949. With a universal program, the government concluded that some other tax should also be levied which would require at least a small contribution from virtually everyone and the sales tax was selected.

Two broad comments may be made on use of the sales tax:

(i) Use of the sales tax was justified when the Old Age Security Act was passed on the basis of the "benefit principle". However, if, as the Minister of Finance argued, payment of sales taxes is roughly proportionate to income, a flat rate pension is a marked departure from the benefit principle in the higher income ranges.

(ii) The sales tax has the obvious disadvantage that people do not know how much they pay and do not connect payments with old age security.

c) The case for a tax on employers is that protecting the members of the labour force and their dependents against loss of income from the hazards of old age, retirement, permanent and total disability, and death is, at least in part, a proper charge on the cost of production. If the principle is valid, however, all employers should contribute (perhaps through a payroll tax) whereas, with a corporate income tax, it seems probable that less than half of Canadian employers contribute in any one year.

d) Much of the purpose, in terms of public awareness, of having earmarked taxes and a separate fund is defeated if deficits are met out of consolidated revenues rather than by raising the earmarked tax rates.

Table V (see page 27) provides an overall picture of the financial operation of the Canadian program.

TABLE V CANADIAN OLD AGE SECURITY FUND REVENUES: AMOUNTS AND PERCENTAGE DISTRIBUTION

1952-53 to 1957-58

Revenue Item	Amounts in Thousands of Dollars						Percentage Distribution					
	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
Personal Income Tax	45,250	90,700	100,900	102,500	124,999	135,001	14.0	26.8	28.6	28.0	33.0	28.5
Corporation Income Tax	36,850	55,600	46,000	53,328	67,336	60,664	11.4	16.4	13.0	14.6	17.8	12.8
Sales Tax	141,558	146,833	143,054	160,378	179,270	175,792	43.8	43.3	40.6	43.8	47.3	37.1
General Revenues	99,483	45,837	63,252	50,013	7,506	102,402	30.8	13.5	17.9	13.7	2.0	21.6
Total	323,141	338,971	353,205	366,218	379,111	473,859	100.0	100.0	100.0	100.0	100.0	100.0

F. Trust Funds and Actuarial Soundness

United States

The American program has two trust funds, one for Old Age and Survivors Insurance and the other for the recently-inaugurated Disability Insurance. In both cases, the operation of the fund involves four major elements - tax contributions and interest on investments, on the one hand, and benefit payments and administrative expenses, on the other. As noted in Section II above, actuarial soundness depends on whether the tax contributions and interest will be sufficient to support the benefits and expenses in the long run.

Informed judgment as to such future prospects depends upon a highly complex series of forecasts based on estimates, trend projections and legislative provisions. Assumptions have to be made, for example, with respect to employment levels, birth and mortality rates, average age at retirement, interest rates, average annual earnings, price levels etc. The most recent intensive study of these aspects of the American program has been by an Advisory Council on Social Security Financing which was appointed by the Secretary of Health, Education and Welfare in 1957. The Council consisted of the Commissioner of Social Security, three employer representatives, three employee representatives and six persons representing the self-employed and the general public. It included several distinguished persons, some of whom were intimately familiar with the operation of the program. The Council's report, which was unanimous, included the following "Major Finding":

> The Council finds that the present method of financing the old-age, survivors, and disability insurance program is sound, practical, and appropriate for this program. It is our judgment, based on the best available cost estimates, that the contribution schedule enacted into law in the last session of Congress makes adequate provision for financing the program on a sound actuarial basis.
>
> The Council has studied the estimates of the short-range and long-range costs of the old-age and survivors insurance program, the various demographic and other assumptions on which they are based, and the basic techniques used in deriving the estimates. The Council believes that the assumptions are a reasonable basis for forecasts extending into the distant future, and that the estimating techniques are appropriate and sound. The Council endorses the present practice under which both the estimating techniques and the assumptions are re-examined periodically to take account of emerging experience and changing conditions.
>
> It is our judgment that the program is in close actuarial balance since the level-premium equivalent of the contribution rates varies from the estimated level-premium cost by no more than one-quarter of 1 per cent of covered payroll. There is no advantage in trying to achieve a closer balance between estimated long-range income and outgo, especially since those estimates are subject to periodic review and such review encompasses the testing of the adequacy of the schedule of contribution rates.

If earnings should continue to rise in the future as they have in the past, the level-premium cost of the present benefits, expressed as a percentage of payroll, would be lower than shown in the cost estimates we have used.

The Council is also pleased to report that under the new schedule of contributions and benefits not only is the system in close actuarial balance for the long run, but also after 1959 the income to the system is estimated to exceed the outgo in every year for many years into the future. We believe that it is important that income exceed outgo during the early years of development of the system as well as that the system be in close actuarial balance over the long range.[1]

A conclusion on the program's actuarial soundness requires a number of more general comments or qualifications:

1) The estimates to date have assumed a high level of employment. If this assumption proves to be incorrect for any extended period in the future:

    a) in the short run, benefit payments are likely to increase more rapidly and tax revenues less rapidly than predicted;

    b) pressure would increase on Congress and the Administration to depart from strict standards in determining total and permanent disability.

2) Rapid inflation would tend to undermine public confidence in the entire program and to lead to insistent demands for increased benefits. These would be offset at least in part by a higher tax return; the ceiling on taxable income would probably be raised as well.

3) Gradual and intermittent inflation would have the following consequences:

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1 Editor's Note: The Clark Report includes considerable data on the estimates and assumptions relevant to a judgment on the actuarial soundness of the American program (see Report, especially Chapter VIII). Although it seemed neither feasible nor necessary to attempt to summarize this material, it should be noted that Dr. Clark reaches substantially the same conclusion as did the Advisory Council on Social Security Financing. "Whether or not there will be an actuarial imbalance in the very distant future", he observes, "cannot be ascertained now. If one accepts the assumptions on which these...estimates are based, the conclusion seems warranted that the Old Age, Survivors and Disability Insurance Program, as amended in 1958, is likely to be actuarially sound." (Clark Report, Vol. 1, para. 620)

a) There would be a widespread demand for higher benefits.

b) There would probably be a tendency for the ratio of contributions to benefit payments to be slightly greater.

c) The relative importance of interest earnings on the trust funds would decrease as a component in financing the programs.

4) In the final analysis, maintaining the actuarial soundness of the program will depend upon the willingness of the American public through their representatives in the Congress to accept increases in taxes to finance benefits under the program. On this score, there are important reasons for optimism:

a) The remarkable growth in per capita productivity of the economy.

b) The record of determination by both parties in Congress to maintain the program as self-sufficient.

c) The willingness of organized labour in the U.S. to support higher contributions as a basis for higher benefits and the support of organized business and insurance organizations for the principle of a self-supporting program.

On the other hand, the critical test is yet to come. Most benefit recipients to date have paid for much less than the benefits they are receiving. By the same token, the present level of benefits will require increasing tax rates to 1969. As the tax rates increase, some people will urge yet higher benefits while others may argue that the tax burden is becoming too heavy on, for example, the self-employed or the lower income groups. When this time comes - perhaps within the next decade or two - the determination of Congress to keep the program both actuarially sound and self-supporting will really be put to the test.

Canada

Canada's Old Age Security Fund is not a fund in the same sense as those in the American program. It is merely a separate bookkeeping account within the Consolidated Revenue Fund.

The fund has always had a deficit varying from a high of 31% in 1952-53 to a low of 2% in 1956-57 and increasing, as benefits were increased, to 22% in 1957-58. The deficits have been met by "temporary" loans, subsequently repaid by vote of Parliament from the Consolidated Revenue Fund.

Since the program has always operated on a pay-as-you-go basis, the concept of actuarial soundness (see above, page 10) is not applicable to the Canadian fund. However it has been a failure on other grounds.

Use of the fund, in conjunction with earmarked taxes, as a device for drawing the public's attention to the relation between costs and benefits is valid in principle. But reliance on temporary loans instead of tax increases to cover the deficits has undermined the principle's effectiveness.

G. Administration

United States

The U.S. program is administered by the Bureau of Old Age, Survivors and Disability Insurance whose Director is responsible to the Commissioner of Social Security. The Bureau, with headquarters in Baltimore, operates 600 District Offices and 7 regional Payment Centres. It employs roughly 22,000 persons.

The U.S. Treasury Department's Bureau of Internal Revenue collects the taxes for the program. The Bureau of Accounts makes the benefit payments on certification from the Payment Centres mentioned above.

Some significant features in administration of the program are as follows:

1) A condition governing the payment of any benefit is that a claim must be made.

2) The average time required to process claims has ranged from 26 to 63 days. The longer delays have resulted from peak loads following various amendments to the Act. The normal lag is perhaps 30 to 35 days.

3) Violations of the retirement test (see Section III,D, above) are negligible - about 1 in every 1000 cases.

4) All persons applying for a disability determination under the disability provisions of the program must be referred to and accept the state government's vocational rehabilitation service. Because of this provision in the legislation, an arrangement has been made whereby the American states administer disability determination under contract with standards set by the federal government. The American Medical Association also cooperates in establishing definitions, procedures etc. for this aspect of the program.

5) The O.A.S. and D.I. service includes referral to appropriate community agencies of persons who request help in obtaining health services, supplemental financial assistance, suitable housing, advice on family problems, etc. The central office includes a Welfare Branch, with trained social workers on its staff, which works with national agencies, public and private, in the development of needed services and which advises its own district offices' staffs on their referral service and participation in community planning.

6) The governmental administrative costs of O.A.S. and D.I., including Treasury Department costs, are borne entirely by the program. Administrative expenses excluded in calculating total costs are negligible. Table VI (see page 33) indicates the administrative costs of the program in dollars and in terms of four common yardsticks which are frequently applied in measuring the administrative efficiency of social insurance programs. Each of the yardsticks is crude rather than precise:

   a) Costs as a percentage of contributions suffers from the weakness that, if tax rates are increased, the percentage may decline over time without any real increase in administrative efficiency.

   b) Costs as a percentage of benefits suffers from a comparable weakness. In addition, the significance of the ratio is particularly difficult to judge during the early years of a program when benefits are low but growing rapidly.

   c) Costs as a percentage of taxable earnings avoids the weakness of the first two yardsticks but is affected by changes in the taxable income ceiling.

   d) Cost per insured worker avoids the weaknesses of the other three measures but, being expressed in dollars, is affected by changes in the value of money.

Allowing for these limitations, it is surely a remarkable accomplishment, given the complexity of the system, to have reduced administrative expenses to 2.2 per cent of contributions and to 2 per cent of benefits in 1957. The relatively low cost would seem to be due to extensive use of the most modern electronic machines and to the ability, determination and commitment of the senior officials, most of whom have been connected with the program since its early stages.

7) In 1957, Mr. Myers, Chief Actuary of the program, undertook to compare its administrative costs with private insurance. His chief finding was that "despite all the limitations of the ... comparison, it can safely be stated that O.A.S.I. and insurance company expenses for group coverages are of the same order of magnitude - both relatively very low".

8) At the request of the Departmental Secretary, a committee of seven businessmen studied the administration of O.A.S. and D.I. and, in June 1958, "commended the Bureau ... for the way in which it administered the program, both from the point of view of its efficiency and willingness to pioneer new techniques as well as for its attitude toward and relations with the public".

Canada

The Canadian program is administered by the Family Allowances and Old Age Security Division of the Department of National Health and Welfare, in conjunction with the Department of Finance.

TABLE VI ADMINISTRATIVE EXPENSES OF O.A.S. AND D.I. IN RELATION TO CONTRIBUTIONS, BENEFITS, TAXABLE EARNINGS OF PROGRAM AND PER INSURED WORKER, 1940-1957

Calendar year	Administrative expenses				
	Total amount in millions of dollars	As per cent of - -			Per Insured Worker
		Contributions	Benefit payments	Earnings taxable for the Program	
1940	26	4.1	74.3	0.08	$1.14
1941	26	3.3	29.5	.06	1.00
1942	28	2.8	21.4	.05	.96
1943	29	2.3	17.5	.05	.88
1944	29	2.2	13.9	.04	.79
1945	30	2.3	10.9	.05	.76
1946	40	3.1	10.6	.06	.98
1947	46	3.0	9.9	.06	1.08
1948	51	3.0	9.2	.06	1.16
1949	54	3.2	8.1	.07	1.19
1950	61	2.3	6.5	.07	1.21
1951	81	2.4	4.3	.07	1.32
1952	88	2.3	4.0	.07	1.34
1953	88	2.2	2.9	.06	1.26
1954	92	1.8	2.5	.07	1.28
1955	119	2.1	2.4	.08	1.66
1956	132	2.1	2.3	.08	1.82
1957	148	2.2	2.0	.08	2.00

There are 10 regional offices administering both Family Allowances and Old Age Security . Each regional office includes a Welfare Section dealing with such questions as establishment of trusteeships, liaison with institutions and social agencies which care for the aged and referral of problems to appropriate welfare agencies.

Administrative costs of old age security and family allowances are merged. As a percentage of total payments, costs averaged about 0.8% from 1952 to 1956. When family allowances and the pension were increased in 1957-58, the percentage was even smaller.

The administrative cost of the Family Allowances and Old Age Security Division in 1957-58 was $2.9 million, of which about 90% went for salaries. The Comptroller of the Treasury also spent $4.1 million, of which 45% went for postage and a like percentage for salaries. Of the combined figure of $7.0 million, about $1.8 million, by rough estimate, was spent on Old Age Security alone. This sum was approximately 2/5 of 1% of total pensions paid. As noted above, the equivalent figure under the American contributory program was 2% of benefits paid.

H. Attitudes Toward the Programs

United States

a) The Program's Philosophy

The best expression of the philosophy underlying the American program is by Dean J. Douglas Brown of Princeton University, a member of the technical staff to the President's 1935 Committee on Economic Security and a continuing student of the program. Dean Brown discerns five elements in the program's philosopy:

1) The system must provide protection as a matter of right and not as a benevolence of a government, an institution or an employer.

2) All citizens must be eligible for coverage regardless of class or income level. Exceptions must be made only for constitutional or administrative reasons.

3) Arising out of the emphasis on the individual in American society, the individual worker establishes, within limits, the level of his protection by his contribution to the economy. The limits to this principle are important, but the concept is central. An established differential in one's earnings and living standards is a precious asset, not only to the individual but to society. However, as a social mechanism it is not incumbent on social insurance to reflect in full proportion the differentials of the wage system either at the lower and upper limits or in the gradations within those limits.

4) The fourth element, still in evolution and still debatable in certain areas of protection, is the concept of protection of the family unit as such by social insurance against all the hazards which the family unit might face.

5) The system is supported by joint contributions by employer and employee. This principle rests on political and social traditions rather than economic grounds. "Of course, arguments can be made about shifting and incidence, as with all taxes or costs, but the fact remains that the first incidence of any contribution to government ... is of great psychological importance. Out of such incidence political influence arises, loyalty and responsibility are encouraged, and personal satisfaction and dignity are gained".

b) Public Opinion

Although no scientific sampling of opinion was undertaken, interviews with four informed members of Congress produced the following unanimous assessment of the public's attitude:

1) The program is extremely popular because of the financial protection it provides.

2) The program adds to most people's feeling of security while assisting them to maintain their self respect because of the contributions they have paid.

3) The differentials in benefits are generally accepted as fair.

4) The contributory taxes are generally accepted as equitable by the American people - as well as by trade unions and business organizations.

5) It is likewise generally accepted that any significant increase in benefits must be accompanied by an increase in contributory tax rates.

6) There are two chief complaints about the program, the first of which is more important:

   a) The benefits are not high enough, especially at and immediately above the minimum.

   b) The retirement test should be abolished or substantially modified because it penalizes those who want to go on working for a few years past age 65.

c) Attitudes of Organized Groups

An analysis of the attitudes of organized labour organizations, the life insurance association and farmers' organizations also reveals common elements. As one would expect, there are differences of opinion among these groups about specific aspects of the program such as coverage, benefit levels and supporting taxes. Generally speaking, however, all of these organizations either support the program wholeheartedly or at least accept it as "here to stay".

d) Dr. Clark's Assessment

Dr. Clark's own assessment of the public's attitude parallels that of the members of Congress as outlined above, with these additions:

1) A substantial proportion of the public is not well-informed about the program, especially about financing it. For example, most people have a highly exaggerated idea of the extent to which they have or will have paid for their benefits. Thus the overwhelming majority of old age insurance beneficiaries would be more than surprised at a 1958 statement by the program's Chief Actuary that "few, if any, of the current beneficiaries have established an amount sufficient to purchase, on an actuarially equivalent basis, more than 10 per cent of their benefit".

2) At the same time, the public is not worried about the ability of the nation to honour the program's promised benefits.

3) Covered workers appreciate the advantage of being able to maintain their benefit rights when they move from one employer to another.

4) The public generally is proud of the program and the conclusion is justified that "the almost universal acceptance of this program is well deserved and that it is a permanent institution in American life".[1]

Canada

About attitudes toward the Canadian program, Dr. Clark makes the following more limited comments:

1) As of 1950, the members of Parliament from all parties were fundamentally right in supporting the four major recommendations of the Joint Parliamentary Committee which led to Canada's present program:

1 Quoted from the Report of the Advisory Council on Social Security Financing, 1959

a) Abolish the former means test program for those over age 70.

b) Replace it by a flat benefit pension of $40 a month payable, subject to residence requirements, to everyone age 70 and over.

c) Have means tested old age assistance payments commence at age 65 rather than 70, as under the previous act.

d) Have the federal government pay 50% of the cost of provincially-administered old age assistance.

2) Public opinion polls and other evidence clearly indicate that public opinion has overwhelmingly favoured a basic minimum pension for everyone beyond a certain age who meets stipulated residence requirements.

3) As already indicated, there has been difference of opinion in Canada concerning the appropriate length of residence as a prerequisite for eligibility for benefit and concerning the limited amount of residence outside Canada allowed while benefits are being drawn.

4) The effect of repeated annual deficits is likely to be interpreted by many people - perhaps unfairly - to mean that successive governments are no longer seriously concerned with making the public aware of the costs of the program. The outcome is likely to be demands either that the whole concept of earmarked taxes and a special fund should be abandoned or that the government raise the present earmarked taxes or introduce others in order to eliminate the annual deficits.[1]

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[1] Editor's Note: Dr. Clark made this comment before the government, as already noted, raised the rates on the three taxes earmarked for the old age security program.

SECTION IV

OTHER INCOME MAINTENANCE PROGRAMS - GOVERNMENTAL

A. Old Age Assistance

A comparison of the salient features of old age assistance in Canada and the United States includes the following points:

1) Federal Sharing of Cost

In both Canada and the United States, the federal government shares in the cost of assistance to the aged, subject to stipulated conditions with respect to age, residence, need, other resources, etc. In both countries also, the nature of the sharing arrangement has been changed substantially within the past decade.

The sharing arrangements under the U.S. program have been as follows:

a) 1935-1958

First, the state's total money payments to recipients (to a maximum of $60 per recipient) was calculated. This was the so-called "total matchable expenditure".

The federal share, immediately preceding the change noted in (b) below, was then 80% of $30 multiplied by the number of recipients plus 50% of the difference between the total matchable expenditure and the sum of $30 times the number of recipients.

In addition, the federal government shared in the cost of payments made by the state directly, rather than to the recipient in his assistance payment, for health services. Prior to 1956, these costs were added to the state's money payments to recipients (subject to the same $60 maximum) and the above sharing formula applied. Under a 1957 amendment, a state could continue to use this technique or, alternatively, the federal share was 50% of the health cost, to a maximum of $3 times the total number of assistance recipients in the month.

b) October 1958 to date

Under the current procedure, the "total matchable expenditure" is the combination of the state's money payments and health cost to a maximum of $65 per recipient on average.

The federal share is now 80% of $30 times the number of recipients plus 50% to 65% of the remainder of the matchable expenditure. The precise percentage of the remainder is determined by a complicated formula the effect of which is to boost the federal share from 50% toward 65% in proportion as the state's personal income per capita is below the national average.

c) Administrative Costs

Since 1946, the federal government has paid 50% of the state's administrative costs for the program. Prior to that date, a state received 5% of its federal old age assistance grant.

The sharing arrangements under the Canadian program have been as follows:

a) 1927-1951

The federal government paid 50%, raised to 75% in 1931, of the cost of provincially administered old age pensions on a means test basis. The maximum pension on which the federal government would pay 50% began at $20 a month in 1927. By 1949, it had risen to $40 a month.

b) 1952 to date

Under the 1951 Old Age Assistance Act, the federal government assumes 50% of the cost of provincially administered old age assistance to a maximum, currently, of $55 a month. Health care is not, as in the U.S., an integral part of the program and, except as affected by arrangements under the recent federal-provincial hospital insurance program, the federal government does not share in these costs (see below, Section C).

2) Age

In the United States, old age assistance must be open to all persons in the state age 65 or over. In Canada, the federal government will only share in the cost of assistance to those in the 65-69 age group.

3) Residence

Under the American program, the state cannot require more than five years of residence in the U.S. out of the nine years immediately preceding the application, together with continuous residence for one year immediately preceding the application. With one minor exception, the requirements for residence in Canada are the same as for the old age pension (see Section III, C above).

A majority of the American states do require a period of residence in the state, although in many states the period is only one year. No Canadian province requires a period of residence as a condition of assistance although it would appear that, under the federal Old Age Assistance Act, they are free to do so. In addition, each province pays the provincial share of a recipient's assistance no matter where he lives.

The provincial residence provisions mean that the Canadian old age assistance recipient is free to move from one province to another if he so wishes. On the other hand, application of the Canadian residence requirements for the old age pension to old age assistance is susceptible to

criticism. Since the essential criterion for payment of old age assistance presumably is need, it is difficult to understand how a requirement of 10 years' residence in Canada can be justified.

4) Citizenship

Under the U.S. program, a state can impose a citizenship requirement, but no federal funds are available if the requirement excludes any citizen of the United States. There is no citizenship requirement in the Canadian Old Age Assistance Act and no province imposes one.

5) Needs, Resources and Amount of Assistance

Under the American program, the state is required to take into account all income and resources in its determination of the need of an applicant for old age assistance. However, the states have considerable leeway with respect to this, as to other, requirements of their programs and great variety exists in the states' provisions under which possession of property and income may render an applicant ineligible.[1]

The actual amount of assistance is determined generally by the budgetary deficiency method under which the amount of the applicant's requirements, according to the state's budget of what a person requires, is reduced by the amount of the applicant's resources. The remainder is the deficit or amount of assistance paid. A number of states limit this payment by fixing a maximum. Within this limitation, the advantage of the method is that it can take greater account of individual needs and regional differences in living costs. On the other hand, it is, of course, relatively expensive to administer.

The Canadian program uses a more straightforward means test procedure. The Old Age Assistance Act specifies the maximum annual income, including any old age assistance payments, that a single person or married couple may have. The maximum assistance payment is then reduced by the amount which the applicant's "other income" exceeds the relevant maximum shown in the table on the facing page.

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1 Editor's Note: See the Clark Report, paras. 772-86, for details.

TABLE VII CANADIAN OLD AGE ASSISTANCE: MAXIMUM ASSISTANCE PAYABLE, OTHER INCOME AND TOTAL INCOME ALLOWED, BY MARITAL STATUS OF RECIPIENT

Annual Amounts; Corresponding Monthly Amounts in Brackets

Marital Status	Maximum Old Age Assistance	Other Income	Total Income Allowed
	$	$	$
Single Person	660(55)	300(25)	960(80)
Married Couple:			
(i) One eligible	660(55)	960(80)	1,620(135)
(ii) Both eligible	1,320(110)	300(25)	1,620(135)
(iii) Spouse on Blindness Allowance (a)	1,320(110)	660(55)	1,980(165)

a) In the infrequent case where the spouse is blind within the meaning of the Blind Persons Act but not eligible under that Act due to e.g. insufficient residence, the total income limit is the same viz. $1,980, and if one spouse is receiving $660 in assistance, the couple's other income may be as much as $1,320.

In calculating "other income", a province may exclude such items as mothers' allowances, family allowances, provincial supplements to old age assistance or old age security payments, etc. Property must be included, however, as in the U.S., with its value translated into income terms for purposes of the program.[1]

6) Assessment

The U.S. and Canadian old age assistance programs are not strictly comparable in the sense that the U.S. program is available to everyone age 65 and over whereas the Canadian program is restricted to the 65-69 age group. Within this limitation, the following comments may be made:

1 Editor's Note: The calculation of real and personal property for purposes of the Canadian old age assistance program is too complex to warrant more detailed treatment in this broad summary (see the Clark Report, para. 1042-69). It may be noted, however, that Dr. Clark identifies a number of inconsistencies and anomalies with respect to the treatment of property as "other income."

a) In the United States, the federal share of the total cost has been increased a number of times over the years. Under the Old Age Assistance Act, 1951, the federal share in Canada has remained constant at 50%.

b) Federal sharing in the U.S. favours the states with per capita income below the national average. In 1957, the federal share ranged from a low of 40.9% in Massachusetts to a high of 80% in Mississippi. The federal share in Canada is not, of course, adjusted in terms of provincial per capita income. But Canada, unlike the U.S., has a separate system of unconditional grants, under the Dominion Provincial Tax Agreements, which provide proportionately larger grants to provinces with lower per capita revenues from direct taxes.

c) Although complete figures are not available, it would appear that state administrative costs in the U.S. are substantially higher than provincial administrative costs in Canada. At least part of the explanation is that, as already indicated, the American budgetary deficiency method of determining the amount of assistance is more expensive to administer than the Canadian means test method.

d) After growth in earlier years, the number of recipients of old age assistance in the U.S. has declined since 1950. The decline is due primarily to amendments to the Social Security Act, increasing the old age insurance benefit and broadening the insurance coverage. Increased benefits and broader coverage has meant also a decline in the number of recipients of dual benefits (assistance and security) as a percentage of all O.A.S. and D.I. beneficiaries - from 12.6% in 1950 to 7.1% in 1958.

The number of recipients of old age assistance in Canada increased to a maximum in March, 1955; declined in 1956 and 1957; and increased again in 1958. There are no dual benefits in Canada because old age assistance and security cover different age groups.[1]

e) In the winter of 1952-53 the proportion of the 65-69 age group in receipt of old age assistance in the U.S. was 10%. The proportion in Canada has remained stable over the years at about 20%.

f) The proportion in receipt of old age assistance varies widely among both American states and Canadian provinces. In 1957, for example, the proportion of those over 65 in receipt of assistance was over 12 times as great in Louisiana as in New Jersey. In March, 1958, the proportion of those 65-69 in receipt of assistance ranged from 12.5% in Ontario to 58% in Newfoundland.

g) Average monthly old age assistance payments in the United States vary greatly. In 1958, the range was from a low of $29.85 in Mississippi to a high of $106.40 in Connecticut.

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[1] Editor's Note: However, certain provinces supplement old age assistance and /or the old age security pension. See below, Section D, Canadian Supplementary Allowances and Health Services.

In Canada, by contrast, the range is relatively slight. In 1958, it was from a low of $45.55 in Prince Edward Island to a high of $53.63 in Newfoundland. The fact that the average is quite close to the maximum of $55 indicates that a high proportion of recipients in all provinces receive the maximum assistance.

h) In the years 1953-54 to 1957-58, between 73 and 78% of all entrants to the Canadian program were aged 65 or 66. The proportions entering at 65 have been significantly higher in the Maritimes and Quebec than in Ontario and the Western provinces.

No equivalent data is available on the American program.

i) A final comment may be made on the Canadian program. It is easy to be somewhat critical of individual details in the Old Age Assistance Program, as it is in other social welfare programs. Two facts, however, stand out as far more important than the criticisms. These are that:

a) the program alleviates an immeasurable amount of need among the aged;

b) as economic conditions have improved, successive federal and provincial governments through mutual agreements have progressively modified the program.

The question remains - are the payments under old age assistance large enough? This is a fundamental question of fact and policy on which there simply is not the information to provide a really satisfactory answer.

B. Canadian Disability and Blindness Allowances

A brief outline of Canadian disability and blindness allowances is necessary because, though not strictly comparable, they are the only equivalent to the disability benefits (see Section III above) under O.A.S. and D.I. A description of blindness allowances is included because blindness is one form of disability.

The main features of the Canadian system of disability allowances are:

1) The federal government contributes 50% of the cost of provincial disability allowances for everyone over age 18 who is totally and permanently disabled. The maximum federal share is 50% of $55 a month.

2) A single recipient's total income, including the allowance, may not exceed $960 a year ($80 a month). The limit for a married couple is $1,620 a year. The exact amount of allowance is determined in much the same way as old age assistance (see Section A above).

3) An applicant must have resided in Canada for 10 years.

4) An applicant cannot be in receipt of a blindness, veterans' or mothers' allowance, or old age assistance or old age pension.

5) The program began in January, 1955. By March, 1958, roughly 42,000 persons were in receipt of disability allowances. For the fiscal year ended March, 1958, the total cost of the program, federal and provincial, was about $22 million. The average allowance varied from a low of $52.12 in Prince Edward Island to a high of $54.78 in Newfoundland. The proportion of those aged 20 to 69 in receipt of the allowance varied widely between provinces. For the fiscal year, 1956-57, the age distribution of recipients was as follows:

Age Group	Per cent
18 - 34	29
35 - 44	14
45 - 54	20
55 - 64	35
65 and over	2

The Canadian program of blindness allowances is similar to the disability allowances program except in the following particulars:

1) The federal contribution is 75% rather than 50%.

2) A single recipient's total income, including the allowance, may not exceed $1,200 a year. The limit for a married couple is $1,980.

3) In March 1958, 8,400 persons were in receipt of blindness allowances. The proportion of the population aged 20 to 69 receiving benefits was just below .10 of 1% compared with .45 of 1% receiving disability allowances. For the fiscal year, 1957-58, the total cost of the program was $4.8 million.

C. Canadian Supplementary Allowances and Health Services

1) Supplementary Allowances

The essential features of these programs may be noted fairly briefly:

a) Under the American cost-sharing formula for old age assistance outlined above, a recipient may receive from a state a monthly payment larger than the maximum in which the federal government will share. Under the Canadian formula, by contrast, the maximum payment is $55 a month and this amount is reduced, as explained on page 40-1, by any "other income" of an applicant in excess of $300 a year. A cost of living or supplementary allowance may be excluded, however, in calculating "other income." A second difference, as already noted, is that in Canada there is not, as in the U.S., any overlap in age groups between the old age assistance and old age pension programs.

In these circumstances, Ontario and the four western provinces supplement one or more of old age assistance, old age pension, disability allowances and blindness allowances under separate legislation. The five eastern provinces do not have special schemes of supplementation although relief is available to persons in great need.

b) Since the supplements are exclusively provincial programs, great variations exist with respect to maximum supplements, permissible income, residence requirements, method of financing, basic programs for which supplementation is available, municipal participation, etc.

Within these variations, the maximum supplement, in legislation or practice, would appear to be about $20 a month.

c) Under the federal Unemployment Assistance Act, 1956, the federal government is enabled to share in the cost of supplements in Ontario and Manitoba, but not in Saskatchewan, Alberta and British Columbia. Whether the federal government can share depends, under the legislation, on the technique by which the province pays the supplement. Such a criterion would not seem to be the most reasonable on which to base federal participation.

d) The total net cost of supplementary allowances to the provinces concerned has risen from about $7 million in 1953-54 to about $14 million in 1957-58.

2) Health Services

In the U.S., old age assistance payments may include sums to allow recipients to pay for health care and the federal government also shares in certain such costs where the state or local authority pays for health services directly to the vendor. In Canada, the assistance payments do not include any sums for health care. Instead, every province, with or without municipal participation, has some program for providing medical care, hospital services and related requirements to recipients of old age as well as other forms of financial assistance. The major features of these programs such as coverage, benefits and financing show considerable variation from province to province.[1]

D. Canadian Government Annuities

The sale of annuities by the federal government began under the Government Annuities Act, 1908.[2] The main features of the present program comprise the following:

1) The maximum annuity that can be purchased is $1,200 a year. The minimum is $10 a year.

2) In recent years the interest rate on annuity contracts has been altered a couple of times in conformity with changes in the yield on long-term government bonds. The current rate is 4%.

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1 Editor's Note: For a specific outline, see the Clark Report, para. 1210-80.

2 As already noted, a proposal to include a federal annuities program in the American Social Security Act, 1935, was rejected.

3) The premium rates have been adjusted a number of times in response to changes in mortality rates. The program has not been fully self-supporting, however, and a number of transfers have been made and will have to be made in the future from the Consolidated Revenue Fund to the annuities account in order to maintain the reserve.

4) From 1908 to 1958, roughly 182,000 individual contracts had been sold under the Act. An unknown number of persons possess more than one of these contracts.

5) Between 1940 and 1958, group contracts increased from 4 to 1,153. The number of employees registered up to the latter date was 275,000.[1] Group contracts require vesting of employees' future service contributions not later than after 20 years of service by the employee.

6) Prior to 1953, no cash surrender values were allowed under a group contract. Since 1953, an employee may take cash on termination of his service with an employer, provided the value of the annuity at the time does not exceed $120 a year at normal retirement age.

7) At March 31, 1958, just over 400,000 annuities were in force. Annuity payments were being made on some 76,000 of these contracts. The average annual annuity payable on the 76,000 contracts was $515.

Of the annuities being paid on single lives:

a) 12% of the recipients were under 60, 35% were between 60 and 69, and 53% were 70 or over.

b) 60% of the contracts were for less than $600.

8) The Government Annuities Act is administered by the federal Department of Labour. The government subsidizes the program in that the administrative costs are not included in the premiums . In 1957-58, administrative costs, excluding services rendered by other government departments and postage, totalled $1,162,000. Seventy-five per cent of this went for salaries.

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1 The extent to which premiums paid toward the purchase of annuities are deductable for income tax purposes is outlined below (see especially Section V, A)

SECTION V

OTHER INCOME MAINTENANCE PROGRAMS - NON-GOVERNMENTAL

A. Relevant Income Tax Legislation

1) Tax Benefits

In both Canada and the United States, employer contributions to registered pension plans are deductible, within limits, for income tax purposes. In Canada, employee contributions are also deductible.

While Canadian tax provisions are detailed and complex, the essence of the current requirements is as follows:

a) An employee may deduct from taxable income up to $1500 a year in contributions to a pension plan for current service and under certain circumstances, another $1500 a year for past service prior to joining the plan.

b) An employer may deduct up to $1500 a year for current service. For past service, he may deduct any payment in a year which does not exceed the amount required for the past service liability.

c) An individual may deduct premiums paid toward a "registered retirement savings plan" (see below - Regulation of Plans) up to 10% of earned income or $2500 whichever is smaller. (This provision is designed primarily for the self-employed person who has no possibility of being a member of an employee pension program. It is not restricted to the self-employed, however. An individual in an employee pension plan may also participate in a registered retirement savings plan in which case his maximum total deduction is 10% of earned income or $1500.)

2) Requirements for Tax Benefit

The requirements for eligibility (registration) for income tax benefits are naturally different for employee pension plans and registered retirement savings plans.

a) Employee pension plans

Nominally, the approval by the Minister of National Revenue is on a year-to-year basis. In fact, plans are examined, apparently, only at their inception or on amendment.

Under the Income Tax Act, the approval is within the Minister's discretionary power. Until recently, the criteria applied were largely as set forth in a booklet entitled "Statement of Principles and Rules Respecting Pension Plans".[1] This so-called Blue Book provided that:

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[1] Editor's Note: A new statement of criteria was issued in July, 1959. See Department of National Revenue, Information Bulletin No. 14, "Pension Plans for the Purposes of the Income Tax Act". (Extract from Canada Gazette, Part 1, Issue No. 29, Vol. XCIII, July 18, 1959.)

(i) The employer must be a party to and a contributor under the plan.

(ii) The plan must be available to broad classes of employees rather than restricted to a carefully selected few.

(iii) Minimum age of entry to a plan must not be above age 35.

(iv) A waiting period of over 10 years for entry must be justified by particular circumstances.

(v) The employees' contributions must be fully vested at all times.

(vi) Vesting of the employer's future service contributions should occur by the time the employee is aged 50 at the latest, subject to a period of participation in the plan or service in the company not to exceed 20 years.

The Blue Book has been the subject of considerable controversy. On the one hand, organizations such as the Canadian Life Insurance Officers Association believe that the government should continue to regulate and supervise the pension plans at least as much as in the past. In similar vein, the Royal Commission on the Taxation of Annuities and Family Corporations (the Ives Commission) recommended in 1945 that "the principle of continuing supervision should be added to the requirement of initial approval of the terms of a plan. The insurance companies, the banks, and other depositories of the people's savings are subject to rigorous supervision and rightly so. Pension plans are not greatly different - they are, after all, the depositories of the life savings of a large number of people".

On the other hand, there are those who feel that the Department of National Revenue should only concern itself in its regulations with those features of a pension plan that have a direct bearing on taxation. (See also below - Regulation of Pension Plans.)

b) Registered Retirement Savings Plans

For registration for income tax purposes, an individual retirement plan must include the following major features:

(i) The annuity must commence no later than age 70, must be a life annuity, and must be payable in equal instalments.

(ii) The plan cannot provide for return of premiums before the date of maturity. If the plan is amended whereby all or part of the premiums are returned, the amount returned is taxable as income at a minimum tax rate of 25%.

(iii) In a last survivor annuity, the second annuitant must be the spouse.

Tax benefit for individual plans is a relatively new feature under the Income Tax Act. During the first complete fiscal year, 1957-58, 34,500 individual contracts were approved by the Department of National Revenue. The number can be expected to increase substantially in the next few years.

B. Major Features of Private Pension Plans

1) Contributory and Non-Contributory Plans

Employee contributions, as noted above, are deductible for income tax purposes in Canada but not in the United States. For this and a number of other reasons, contributory plans, in which employee as well as employer contributions are required, appear to be more prevalent in Canada.

Statistics from comparable surveys are not available. It would appear, nevertheless, that Canadian plans are contributory in roughly 80 to 90% of cases. In the U.S., by contrast, a 1949 survey found that less than 60% of plans were contributory. And the trend in the U.S. is more and more toward non-contributory programs.

2) Unit Benefit and Money Purchase Plans

In a "unit benefit" plan, an employee earns, for each year of service, a unit of benefit which is usually expressed as a percentage of his salary.

In a "money purchase" plan, the employer and employee each contribute a fixed percentage of salary and the pension is the amount purchased by the contributions plus accumulated interest.

In both Canada and the United States, unit benefit plans tend to be used by larger firms and money purchase plans by smaller ones. The latter are generally losing ground to the former.

The two major advantages of the unit benefit plan are that:

a) It is possible to predict the amount of the pension more accurately.

b) The plan can be and often is made even more attractive by basing the benefit on the average salary of the last five or ten years before retirement rather than the overall average salary.

3) Eligibility Requirements

a) Voluntary or Compulsory Membership

In non-contributory plans, the question of whether employee membership is optional does not, of course, arise since employees pay no contribution.

In Canadian contributory plans, it appears that compulsory membership for new employees is the rule in about 50% of cases. The situation in the United States is not known; as already noted, however, a larger proportion of plans are non-contributory.

b) Age and Years of Service

Although statistical data are scarce, it appears that, before an employee becomes a member of his employer's plan, he is likely to be required to have up to 5 years' service and to be up to 30 years of age. Some plans also exclude older workers from becoming members.

4) Retirement Provisions

Pension plans customarily have a "normal retirement age" which is:

a) the age around which calculations of the costs of the program may be made;

b) the age at which an employee has the right to retire and claim the pension he has earned.

Many plans, of course, include provision for retirement under certain circumstances at an earlier or later age.

In Canadian plans, the normal retirement age is most commonly 65 for males and 60 for females. In the U.S., the age for females is more often 65, the same as for males.

Information on Canadian early retirement provisions is not generally available. According to a 1951 survey, 77% of the larger Canadian plans had provision for late (deferred) retirement. Available statistics indicate that a deferred retirement provision is common in U.S. plans also.

5) Benefits for Dependents

Private pension plans usually provide little, if any, protection for dependents of deceased employees. Normally the only benefit is a refund of the employee's contributions, with or without interest.

6) Vesting

Available data indicates that the pattern with respect to vesting of employer contributions is decidedly mixed. The only generalizations possible are that vesting appears to be considerably less common in U.S. plans than Canadian and that U.S. plans more often have age as a requirement for vesting.

7) Cash Surrender Values

U.S. pension plans generally allow an employee to take his contributions in cash if he leaves an employer. Of 176 contributory plans analyzed in a Canadian study, the cash surrender value had to be taken in 7%, an annuity only was available in 32% and the employee was free to choose between the two in 59%.

Although a number of arguments for cash surrender values are advanced, the rationale for them is not clear. On the other hand, the problem of preserving pension credit for the employee who changes jobs is extremely complex. The possible techniques, each of which has its own limitations, include transferral of credits to the new employer's plan; industry-wide pension plans; a voluntary or compulsory central registry of employee pension credits, with or without a centrally pooled fund; or a requirement for registration of a plan for income tax purposes that it maintain a reduced paid-up vested interest (a future pension) for terminating employees.

8) Insured and Trusteed Plans

Insured plans are those underwritten by an insurance company. The underwriter receives all contributions, guarantees to pay benefits according to the terms of the contract, and assumes all risks relating to inadequate interest and/or mortality rates.

In trusteed plans, by contrast, there is no third party. The contributions go into a trust fund and benefits are either paid directly out of the fund or may be purchased, at retirement or termination of service, from a life insurance company or in the form of a government annuity. Trusteed plans provide greater flexibility for, but also impose greater responsibility on, the employer.

Trusteed plans are very prevalent in the U.S. In December 1954, 68.7% of all employers in retirement plans were in self-insured plans. Self-insured plans in Canada are used by many of the larger employers and, in 1953, their assets exceeded the combined assets of plans underwritten by life insurance companies and the federal Annuities Branch.

9) Regulation of Pension Plans (Canada)

The extent and nature of current federal supervision of private pension plans depends on such matters as whether the plan is insured or trusteed and whether or not the contributing employer is exempt from income tax. Broadly speaking, however, it would seem that the general recommendation of the Ives Commission of 1945 for "official" supervision has not been carried out adequately. A major limitation is, of course, that the constitutional powers of the federal government in the field are extremely limited. Direct regulation of pension contracts is a provincial prerogative; at the moment, federal regulation is restricted to income tax regulations (see above - Relevant Income Tax Legislation) and general regulation of insurance companies by the federal Department of Insurance.

C. Coverage of Private Pension Plans

Complete figures on coverage of private pension plans are not available. The existing data do, however, support the following estimates and generalizations.

1) Trends in Coverage

The federal Department of Labour's annual review of working conditions in Canadian industry indicates that, from 1951 to 1957, the percentage of establishments surveyed with plans increased from 37.0 to 53.4 and that employees in establishments with plans as a percentage of all employees surveyed increased from 65.8 to 77.8. (It should be noted that not all employees in a firm with a plan are necessarily covered by the plan.) From 1936 to 1957, employees in firms with plans have quadrupled in number. By any commonly accepted standard, this growth in coverage during the past two decades has been a remarkable achievement.

Between 1935 and 1955, American private pension plans increased in number from 1,090 to 23,000. Individual coverage increased from 7.0% to 24.3% of the civilian labour force during the same period. (It should be noted that these percentages relate only to employees actually covered whereas, as noted above, the Canadian percentages relate to employees in firms with plans, whether or not all employees are members.)

2) Total Coverage

With respect to Canada, it seems fair to say that perhaps 1,750,000 to 2,000,000 persons were protected by pension plans in 1957. These constituted from 29 to 33 per cent of the civilian labour force plus the armed forces.

In the previous year, 1956, about 21.2 million persons were protected by plans in the United States or about 31.4% of the civilian labour force.

D. Need for Further Data

There is need for extensive research on pension plans in Canada to answer such questions as the following:

1) How many plans are there?

2) How many males are covered, how many females?

3) What is the age distribution of all employees covered and what is the distribution by province, by industry and by size of employer?

4) Among employers with plans, what percentage of employees are participating, what proportion are eligible after a waiting period, what proportion are permanently excluded?

5) What are the provisions in existing plans with respect to vesting and transfer of pension credits to a new employer and what are the facts with respect to their use?

6) What are the provisions and facts with respect to normal retirement age and early and postponed retirement and with respect to amounts and distribution of pension payments?

SECTION VI

SELECTED STATISTICAL COMPARISONS OF CANADIAN AND AMERICAN OLD AGE SECURITY PROGRAMS

A. Proportion of Older Age Group Receiving Benefits

In the United States, old age insurance is supplemented by old age assistance for persons age 65 and over. In Canada, old age assistance applies to the 65-69 age group while old age security covers those 70 and over. It therefore seems reasonable to compare the proportion of the population age 65 and over receiving benefits under the two programs of each country. The following table compares the coverage from the beginning of the Canadian Old Age Security program in 1952 to the present.

TABLE VIII ESTIMATED PROPORTIONS OF POPULATION AGE 65 AND OVER RECEIVING OLD AGE SECURITY OR ASSISTANCE BENEFITS IN THE UNITED STATES AND CANADA, 1952-1958

Year	United States	Canada
1952	43.7	61.1
1953	45.1	67.2
1954	49.0	68.3
1955	53.6	69.2
1956	58.0	69.5
1957	61.4	70.1
1958	67.5	71.6

The figures reveal that, while the proportion receiving benefits in Canada has been consistently higher, the differential has been rapidly diminishing. Two factors should be taken into account in evaluating the lower proportion of coverage in the United States:

1) The U.S. retirement test has meant that workers entitled to benefit do not draw them, on average, until they are about age 68 (See Appendix B).

2) The maturing of the U.S. Program means that coverage, while growing is still incomplete. The proportion of the population receiving benefits will continue to increase for some time.

Taking old age assistance alone, the proportion of those in the 65-69 age group receiving assistance in 1953, the latest year for which comparable data are available, was 10% in the U.S. and just under 20% in Canada.

B. Old Age Insurance and Security Benefits and Personal Income

Any comparison of old age insurance and old age security payments in terms of personal income must take into account that, according to the findings of the Royal Commission on Canada's Economic Prospects, personal income per capita is about 30% lower in Canada than in the U.S. while the cost of living in the two countries is substantially the same.

(1) Comparison of Trend

The following table compares old age insurance and old age security payments in terms of average personal income per capita since the Canadian program began.

TABLE IX MINIMUM, AVERAGE AND MAXIMUM U.S. OLD AGE INSURANCE BENEFIT AND CANADIAN OLD AGE SECURITY BENEFIT AS PERCENTAGE OF AVERAGE PERSONAL PER CAPITA INCOME, 1952-58

Year	Old Age Benefits in United States			Flat Rate Old Age Pension in Canada
	Minimum Benefit	Average Benefit	Maximum Benefit	
1952	17.4	34.2	59.1	39.9
1953	16.8	34.3	57.0	38.9
1954	20.3	40.1	73.6	39.8
1955	19.3	39.8	69.8	38.0
1956	18.4	38.6	66.4	35.2
1957	17.8	38.2	64.2	34.4
1958	18.0	39.0	64.9	46.6

Three comments should be made with respect to these figures:

1) The jump in the Canadian percentage in 1958 reflects the two increases in the flat rate benefit voted in 1957. Prior to 1958, the Canadian pension was steadily declining in relation to average income.

2) The U.S. figures do not reflect a 7% increase in benefits voted in 1958, to take effect in January 1959.

3) The nature of the U.S. program means that average dollar benefits will continue to increase gradually but continuously even without further amendments.

(2) Family Benefits

In December, 1957, comparative figures on benefits for a man and his wife were:

	Benefit	% of Average Personal Per Capita Income
U.S.	$108.40	64%
Canada	$110.00	95%

These figures require two qualifications:

1) Whereas the Canadian monthly benefit is flat rate, the U.S. is an average. Some U.S. couples got as much as $162.75; others received as little as $45.

2) For a Canadian couple to receive $110 a month, both husband and wife must be over 70. For a U.S. couple receiving $108.40, both husband and wife are eligible at age 65 (no minimum age for the wife if she has a child in her care), subject to the retirement test.

(3) Widows' Benefits

In Canada, a widow receives $55 a month at age 70. In 1958, this amount was 47% of average personal income. In the U.S., widows age 62 and over received, on average, $51.10 a month in December 1957. This was 30% of 1957 personal income per capita.

C. Old Age Assistance Payments and Personal Income

(1) Comparison of Trend

The earliest date for which figures on average old age assistance payments in Canada are available is 1946. Table X (see page 56) compares average old age assistance payments in terms of average personal per capita income since 1946.

TABLE X UNITED STATES AND CANADA: AVERAGE OLD AGE ASSISTANCE AS PERCENTAGE OF AVERAGE PERSONAL PER CAPITA INCOME, 1946-58

Year	United States	Canada
1946	33.9	36.4
1947	34.1	34.9
1948	35.5	38.0
1949	38.9	37.3
1950	35.4	43.2
1951	33.5	39.8
1952	35.4	37.4
1953	34.6	35.5
1954	35.1	36.3
1955	34.7	34.7
1956	35.5	32.1
1957	35.9	31.9
1958	36.7	44.3

Again, a number of qualifications and comments are in order:

1) The average payments from which the percentages have been calculated are not strictly comparable. From 1950 to 1959, the U.S. figures are based on data which include money payments made to recipients for health services or to vendors of health services and the number of persons whose assistance consisted only of payments or assistance of that nature.

2) The decline in the Canadian percentage from 1950 to 1957 reflects the fact that maximum old age assistance remained at $40 a month during the period. In the U.S., by contrast, the federal share of old age assistance was raised in 1948, 1952 and 1956. Also, many states use fairly high maximums or do not use maximums at all. Consequently, the U.S. percentage did not vary greatly over the period.

3) The above point requires two further qualifications:

a) The Canadian figures do not reflect substantial supplements paid and health services provided by certain provinces.

b) As already noted, old age assistance in the U.S. overlaps by age group with old age insurance. For some Americans, therefore, the old age assistance payment is a supplement to an old age insurance benefit.

(2) Regional Comparison

Leaving aside the supplements paid in certain provinces, the variation in average old age assistance payments in Canada in 1958 was from $45.55 in Prince Edward Island to $53.63 in Newfoundland. Since the average Canadian payment was $52.20, most recipients must have obtained a payment at or near the maximum of $55.00

With state variations in the maximum payment, the average payment in the U.S. in 1958 ranged from $29.85 in Mississippi to $106.40 in Connecticut.

D. Total Old Age Security Expenditures in Relation to Total Personal Income and Gross National Product

Expenditures under the Old Age Insurance Program in the U.S. include payments to dependents and survivors under age 65. Comparisons therefore are comparisons of two programs rather than of the provisions available to the same age groups in the two countries. Also, the U.S. expenditures include certain costs for health services whereas the Canadian figures exclude both provincial supplements and health service costs.

Within these limits, comparison of total expenditures in relation to total personal income and gross national product reveals the following:

(1) Personal Income

In the U.S., old age insurance and assistance expenditures combined as a percentage of total personal income have risen from just over 1/2 of 1% in the early 1940's to 2.64% in 1957. As the old age assistance payment percentage has not varied greatly, the overall increase reflects primarily the growth in old age insurance expenditures as a percentage of personal income.

In terms of combined expenditures, the corresponding rise in Canada was from about 1/2 of 1% in the early 1940's to 2.26% in 1957. The big jump in the Canadian percentage followed the introduction of the flat rate pension in 1952. It should be noted further that the 1957 percentage of 2.26 does not reflect a full year of the new flat rate benefit of $55 a month since the increase did not take effect until November 1957.

(2) Gross National Product

In 1939, the year before old age insurance benefits began, U.S. payments under old age assistance amounted to .47% of U.S. gross national product compared with .69% in Canada under the 1927 Old Age Pensions Act. For 1957, the corresponding percentages for combined old age insurance/security and assistance expenditures were 2.08% and 1.67% respectively.

The 1957 percentages require two qualifications:

a) As just noted, the present Canadian flat rate benefit of $55 a month did not begin until November 1957.

b) As of January 1959 the average old age insurance benefit in the U.S. was increased by 7%.

In light of this, one gains the impression that, for 1959, the difference between the expenditures of the two countries on their respective programs as a percentage of respective gross national product will be considerably less than in 1957.

E. Total Old Age Security Expenditures and Other Welfare Expenditures in Relation to Federal Budgets

Table XI (see page 59) provides selected comparisons for selected years.

Two explanations are required with respect to specific comparisons in the table:

1) The percentages excluding defence expenditures are provided because U.S. defence expenditures constitute a much greater proportion of the federal budget than they do in Canada.

2) On the other hand, family allowances, a large item in Canada's total social security expenditures, are not paid in the U.S. Hence, a comparison is provided combining old age security and family allowance expenditures.

F. Average Old Age Payments in Relation to Price Changes

Have changes in the average amounts payable kept pace with changes in the cost of living (inflation)? The following points help to answer this question:

1) From 1946 to 1957, average old age assistance payments increased from $35.31 to $60.68 in the U.S. and from $23.98 to $37.03 in Canada. After correction for inflation as measured by the Consumer Price Index, the 1957 American payment was 30% higher than the 1946 one. By contrast, the similarly corrected 1957 Canadian payment was 3% lower than the 1946 one. However, in 1958 the average Canadian payment jumped to $52.20. After correction for inflation, this amount was 32% higher than the average 1946 payment.

TABLE XI UNITED STATES AND CANADA: OLD AGE SECURITY AND OTHER WELFARE EXPENDITURES AS PERCENTAGE OF FEDERAL BUDGETARY EXPENDITURES, 1952-53, 1957-58 and 1958-59

Federal Budgetary Expenditures	Canada			United States		
	1952-53	1957-58 (a)	1958-59 (b)	1952-53	1957-58	1958-59 (b)
Federal Expenditures on: Old Age Security (c) (d) as per cent of:						
(1) Federal Budgetary Expenditures (e)	7.0	8.8	9.9	3.5	10.2	11.4
(2) Federal Budgetary Expenditures (e) Excluding Defence	12.1	12.7	13.6	10.8	22.8	25.4
Family Allowances (d) and Old Age Security (c) (d) as per cent of Federal Budgetary Expenditures (e)	14.2	16.8	18.2	3.5	10.2	11.4
Old Age Security (c) (d) and Old Age Assistance (d) as per cent of Federal Budgetary Expenditures (e)	7.4	9.21	10.4	4.7	11.5	12.9
Old Age Security (c) (d), Old Age Assistance (d) and Family Allowances (d) as per cent of Federal Budgetary Expenditures	14.6	17.3	18.7	4.7	11.5	12.9

(a) Preliminary
(b) Estimates
(c) Old Age Security payments in Canada; Old-Age, Survivors, and Disability Insurance Program benefits in the United States.
(d) Includes costs of administration
(e) Federal budgetary expenditures in Canada adjusted by adding Old Age Security payments less grants from Federal Budget to Old Age Security Fund. In United States, Federal budgetary expenditures adjusted by adding Old-Age, Survivors, and Disability Insurance Program benefit payments and administrative costs.

2) After correction for inflation, the American average old age benefit of $64.60 in 1957 was almost 100% higher than the average 1946 benefit of $24.55. The earliest possible Canadian comparison dates from 1952. The 1957 Canadian payment of $40.00 had of course declined in comparison with the like 1952 payment of $40, after correction for inflation. After similar correction, however, the 1958 payment of $55 was 29% higher than the 1952 payment.

SECTION VII

PRINCIPLES IN A BASIC GOVERNMENT PENSION

Section VII examines the question - should Canada have a contributory pension program with variable benefits? One's views as to the answer are likely to be greatly influenced by the answers to three prior questions which are weighed below.

Question No. 1

For whom should the federal government provide old age pensions?

Public opinion on this question has shifted radically in recent decades. Prior to World War I, the federal government provided pensions for virtually no one. Since the inauguration of the flat rate pension at age 70 in 1952, public opinion, as already indicated, has overwhelmingly favoured this course of action. There is, then,widespread agreement (today) that the Government of Canada should provide a basic minimum pension for the aged.

Question No. 2

On what principles should the size of a basic government pension be determined?

There are three possible principles that might be followed:

1) The Subsistence Principle

Subsistence is defined in different ways. The basic minimum may be determined by statistical study of the minimum amount necessary "for subsistence" or "for the maintenance of merely physical efficiency". It may be interpreted as "an income adequate to maintain" the citizen or as a rate which "will enable the majority of persons to whom it is payable to live at a minimum standard of health and decency". To a growing number of experts, it can only be a relative concept expressed as some fraction of average personal income or a different fraction of average income of wage earners in, for example, the lowest quarter of the wage earning population.

A major problem in using a subsistence yardstick is that, with regional differences in the cost of living, an adequate pension in a low cost area is inadequate in a high cost area.

While it is obvious that a subsistence pension cannot be eroded away by inflation without contravening the principle, it is not clear that it should be adjusted for changes in productivity. Slight increases would be necessary from decade to decade, however, as any significant increase in real living standards will affect judgment as to what is necessary for subsistence.

2) The Automatic Share Principle

The concept, which is consistent with a high or low pension, is that each pensioner is entitled to a share of the national income provided by those currently working.

Application of the principle would mean that pensioners would automatically:

a) have their pensions raised or lowered in conjunction with price increases or declines;

b) share in increases or decreases in the standard of living occasioned by changes in economic productivity.

The advantages to the pensioner are obvious. The serious disadvantage is that the approach is too inflexible. Even though a government may support the general proposition of pension adjustment in light of inflation or rises in real living standards, commitment to the automatic share principle restricts the government's freedom to adjust and keep in balance all its policies in the face of inflation or deflation.

3) The Eclectic Principle

Negatively, the eclectic principle is simply a distrust of automatic formulae for pension adjustment. Positively, it involves a belief that a government should take into account some or all of the following:

a) the basic needs of pensioners in various parts of the nation who have no other means of support in their years of retirement;

b) the proportions of those eligible for the basic pension who can and cannot reasonably be expected to supplement the basic pension;

c) the average earnings in various parts of the country of those who are close to retirement;

d) the trends in the number of the population living beyond the age of eligibility for pension;

e) the trends in average life expectancy for those living beyond the age of eligibility for the pension;

f) the existing burden of taxation on individuals and businesses, and attitudes of various organized groups in the nation and of the public at large to paying taxes in general, and for pensions in particular;

g) the competing demands upon the national government to provide other services -- defence, grants to other levels of government, health services, etc.;

h) public opinion as to what the level of pensions should be at any given time.

In practice, governments in Great Britain, Canada and the United States have set basic or minimum pensions in recent decades in accordance with eclectic, rather than the subsistence or automatic share, principles.

In announcing its proposals for social insurance in 1944, the British coalition government rejected the subsistence concept and pensions have continued

below the level required by Lord Beveridge's standard of subsistence. Again in 1953, a government appointed committee rejected application of the subsistence principle as "an extravagant use of the community's resources". The committee noted, however, "that the proportion of people drawing national assistance at any given time offers a useful guide to the extent to which the national pension rate is failing to attain its limited objective of a reasonable basis of provision for old age involving supplementation in only a moderate percentage of cases."

Under the American program, it is open to argument whether a large or small proportion of beneficiaries is receiving a subsistence income. It is widely accepted, though, that those in receipt of the minimum benefit only are getting below a subsistence minimum, however defined. In practice, of course, a contributory program is likely to provide:

a) in the early years, pensions well below a subsistence level for many pensioners;

b) in the long run, pensions well in excess of a subsistence minimum for a majority of pensioners.

In Canada, neither the previous nor the present government has suggested that the pension is adequate to provide a subsistence income to all pensioners. For example, in raising the pension to $55 a month, the Minister of National Health and Welfare claimed only that:

> "It will be sufficient in our judgment, together with the other means that most pensioners have at their disposal, to provide a decent minimum level of living for most pensioners."

Question No. 3

On what principles should the basic pension be changed from time to time in the light of:

a) Changes in the price level of goods and services the pension recipient buys?

b) Changes in Canadian per capita economic productivity?

With respect to the first half of this question, there are four ways of protecting government pension recipients from inflation:

1) Pensions can be adjusted automatically according to changes in some price index.

The case for such an approach is that:

a) It provides protection without the delays inherent in the second and third approaches outlined below. The lower the basic pension, the more urgent is the need to minimize delays and the more important is the argument. On the other hand, if adjustments made every few years are well in excess of what is required to counteract inflation, the argument loses much of its force.

For example, the Canadian pension under the Old Age Pension and Old Age Security Acts has risen much more rapidly than the Consumer Price Index.

b) It gives pensioners the security of knowing that their basic pension will be maintained.

c) Although a pension tied to a consumer price index can be raised for reasons unconnected with changes in price levels, the pressure on political parties in such a situation to outbid one another in promising ever greater benefits is somewhat mitigated.

The case against automatic pension adjustment with changes in a price index is that:

a) It is difficult to limit application of such a policy. For example, recipients of old age assistance and veterans benefits and buyers of government annuities and bonds would claim an equal right to such protection of their investment or income.

If this equal right is granted, there are two further difficulties. The policy would add to existing inflationary pressures. And the adoption of such a policy by the federal government would create difficulties for other levels of government, insurance and trust companies, etc. in their financial or selling operations.

b) A policy of automatic adjustment would be interpreted by investors as acknowledgment by a government of its unwillingness or inability to preserve the value of the dollar.

c) If pensions are automatically adjusted upward with inflation, they should be adjusted downward with any decline in prices. Such a course would be politically difficult to follow. It could be made easier, however, by providing that pensions could not be reduced unless the price index dropped by, say, five points.

d) If pensions are tied to a price index, the validity of the index would become a focal point of political dispute, as happened with the Cost of Living Index in Canada during and immediately after World War II.

2) <u>Pensions can be adjusted by parliamentary action from time to time without reliance on any automatic formula.</u>

The most important advantage of this approach is that it gives a government maximum freedom to take into account not only changes in the price level, but any other factors deemed relevant. The disadvantages, suggested above, are that it creates uncertainty in the minds of pensioners and that it invites competitive bidding by political parties. The extent to which pension adjustments can or should be taken out of politics is, of course, debatable. But the desirability of protecting politicians as well as pensioners as far as possible has led to proposals for a third approach.

3) <u>Pensions can be adjusted by parliament, after receiving recommendations of an independent advisory committee.</u>

The advantages of an independent advisory committee are as follows:

a) If the members were wisely selected, the committee's independence would inspire public confidence in its recommendations and its reports could perform a valuable educational function.

b) Existence of the committee would remove some of the pressures on politicians to promise higher benefits without accurate knowledge of the costs of their proposals.

The arguments against an advisory committee are that:

a) The existence of a committee could, or could be used to, delay increases in pensions.

b) If a committee recommends what the government would have done in any event, it is superfluous. If it recommends more than the government is prepared to grant, it is embarrassing.

c) Why bring in a group of outside advisers when the government already has an efficient welfare department with an impressive research division? The American practice provides an answer to the question. Although the Social Security Administration is constantly preparing useful studies in the field, advisory councils, appointed from time to time to analyse controversial issues, have brought forward an impressive list of proposals which, over the years, have been incorporated as amendments to the Social Security Act.

4) The value of pensions can be protected by preventing inflation.

The advantage of this approach is that it not only protects recipients of a government pension but also those who are relying, in some measure, on private pension plans, savings, etc.

The economic measures to prevent inflation are available. The problems inherent in this most fundamental and satisfactory approach are primarily political. They arise from the fact that the individual, organized labour, business and government alike are ambivalent. They all benefit in some situations from inflation while losing in other respects.

If asked, are you in favour of government policies to maintain the purchasing power of your dollars, the vast majority of people would definitely say, "yes". As individuals receiving or looking forward to receiving income from pensions, bonds or life insurance, people want the value of their return to be preserved. Yet the same persons are concerned, as wage earners or businessmen, to maximize their current incomes and, as citizens, to obtain a rising level of services from government. Consequently they often, knowingly or unknowingly, contribute to the very inflation they may deplore.

Governments have also contributed actively to inflation in two ways. In response to enormous pressures to spend for national defense, social services, national resources development, etc., as well as to public expectation that government should prevent recession and extensive unemployment, national governments have encouraged their central banks to maintain a cheap money policy

and indirectly have also increased the supply of money at a faster rate than the supply of goods and services by incurring large deficits which were financed largely through central banks, commercial banks and other financial institutions. Both policies are inflationary. Yet, although there is some difference of opinion on the point, most economists agree that neither gradual nor any other kind of inflation is necessary to full employment, desirable, or inevitable. With respect to full employment, Canadian statistics for recent years, while inadequate as a basis for firm conclusions, suggest that a rising price level is not in itself a guarantee of full employment. Inflation is not desirable for five reasons:

a) It is inherently unfair to persons, such as certain categories of salaried employees and those on pensions, who are economically or politically incapable of protecting their interest.

b) It is unfair to those who have saved and lent money at fixed rates of interest.

c) The expectation of inflation can undermine confidence in investment in bonds and, if the expectation becomes widespread, can intensify the inflationary pressure as individuals and organizations seek to protect themselves against a decline in the value of the dollar.

d) Inflation, especially in a country like Canada, is likely to be harmful to export industries.

e) Inflation tends to lead to an overstatement of business profits and thereby to induce optimism leading to over-investment.

Nor is inflation inevitable. In countries such as Great Britain, the United States and Canada, the economic tools and knowledge are available to prevent inflation. Their use requires political will power. And this in turn will require public education in which the government, the central bank and the universities can all play a part.

It may be recalled that the second half of question No. 3 above was - on what principles should the basic pension be changed from time to time in light of changes in per capita economic productivity? This issue can be dealt with more briefly. Most people would agree that, as real income per capita rises, those already retired should share to some extent in the increase. The possible techniques of adjustment are the same as for changes in the price level (inflation). And the same advantages and disadvantages apply to each technique.

SECTION VIII

ARGUMENTS FOR AND AGAINST A CANADIAN CONTRIBUTORY PENSION PROGRAM WITH VARIABLE BENEFITS

A. Basic Assumptions

The arguments for and against a contributory program with variable benefits depend to some extent on the type of program envisaged. In order to avoid an excessively general analysis, the assessment of arguments is made contingent on the following assumptions:

1) Preservation of Existing Pension Rights

a) Everyone entitled to receive $55 a month under the Old Age Security Act would continue to receive this as a minimum pension.

b) If an employee pension plan were altered or terminated following introduction of a government contributory pension program, the rights of members of the plan would, as is now customary, be protected.

c) Employers would be free to maintain, modify or discontinue existing pension programs or to establish new ones.

2) Coverage

The government could either:

a) establish a voluntary system which employers, employees and the self-employed would be free to join if they complied with its requirements.

b) or establish a contributory program requiring within a specified time either universal coverage, or coverage in the government program or an approved alternative (contracting out). In either case, specific categories of persons might be exempted.

3) Benefits

a) Through contributions and investment interest, benefits would be built up gradually until they provided a substantial supplement to the flat rate benefit.

b) Benefits, even after three or four decades, would not be so high that coverage under private pension plans would become confined to the upper income groups.

c) Although not necessarily strictly proportional, benefits above the minimum would be related to the contributions.

4) Financing

a) Benefits above the minimum would be financed solely from contributions and investment earnings. This would not, of course, preclude a government subsidy to finance part of the minimum flat rate benefit.

b) There would be a trust fund at least large enough to finance benefits in any one year without borrowing, in the event of an unexpected and drastic decline in contributions.

c) As in the U.S. program, employers and employees would contribute equally in relation to payrolls.

d) There would be a maximum income subject to tax with respect to both employer and employee contributions. Such a ceiling is necessary if there is to be any significant scope for private pension plans. And complex economic and political considerations make necessary an upper limit to benefits in a contributory government program in any case.

e) If covered, the self-employed would also contribute in relation to their earnings, subject to the same income ceiling as employees. The tax rate for the self-employed could be the combined rate on employers and employees, the rate on employees only, or some intermediate rate.

5) Administration

a) The program would be operated by the federal government. The present flat rate pension program would be coordinated closely with the contributory program in order to minimize administrative costs.

A federal program has obvious administrative advantages as well as significant advantages in terms of labour mobility. On the other hand, provincial programs would be administratively feasible, would leave more room for experimentation, and would avoid adding to the present lengthy list of federal responsibilities.

B. Comments on Assumptions Concerning Coverage

1) A Voluntary Contributory Program

If the government were to provide a substantial subsidy to the program, those outside would regard it as unfair. If a substantial subsidy were not provided, coverage would probably be rather limited. A government contributory program can offer the advantages of "portability" and immediate or almost immediate vesting. On the other hand, a number of factors could work against extensive coverage:

a) Many would think they could not afford to join because their present earnings were too low.

b) Those who were satisfied with the flat rate pension plus whatever they could save toward retirement would not join.

c) U.S. experience suggests that a government contributory program is not likely to pay as large pensions in relation to covered pay as those typically paid under employee programs of large corporations.

d) Many persons, especially the self-employed, might prefer to save for old age in other ways.

e) The forces of inertia plus incentives in the society to spend rather than save would discourage coverage.

The overall conclusion is that a purely voluntary unsubsidized program would appeal to only a limited portion of the population - but that the proportion of the working population and their families covered by it would increase gradually.

2) A Compulsory Contributory Program with Contracting Out

The history of proposals for contracting out in the U.S. and Great Britain provides a useful background for consideration of the difficult basic questions involved in such an arrangement.

During the congressional hearings on the American Social Security Act, a number of employer groups urged contracting out and the U.S. Senate initially supported an amendment to allow it. The amendment was subsequently dropped, however; it became accepted increasingly that the appropriate role of employee pension plans should be to supplement, rather than be a substitute for, the government program; and the current consensus of opinion in the U.S. Congress, in the Social Security Administration and among American private experts is that contracting out is not feasible and should not be allowed.

British opinion as reflected in recent party proposals is somewhat different. The British government pension system provides a flat rate benefit financed by flat amounts of contributions by employers, employees and the self-employed, plus a government subsidy. Currently, both the Conservative government and the Labour party propose an additional contributory program with benefits above the minimum related to contributions.[1] Both also propose to allow contracting out for approved employee plans. It is understood that expert opinion among British actuaries on the practicability of permitting such contracting out is sharply divided, with considerable support for the view that it is feasible under strictly defined conditions. The following questions suggest the difficulties involved:

a) Given the great variations in occupational plans, how is it to be decided if the provisions of a private plan are more or less favourable than a government program?

The Conservative goverment's position is that employee plans need not be as good or better in every particular but that they must provide benefits which "are in the whole as favourable as the maximum graduated pension rights of the new state scheme". The Labour party stipulation is that, in an employee plan, "contributions and benefits should not compare unfavourably with those of the National Scheme".

b) These reasonable requirements suggest the second question - must an approved private plan be as favourable for all employees or just some majority?

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[1] Editor's Note: The government's proposal was the basis for the National Insurance Act, 1959. For a summary of the main features of the legislation, see U.S. Department of Health, Education and Welfare, Social Security Bulletin, Vol. 22, No. 9, September 1959.

c) Given approval of a plan, who decides whether contracting out is to take place - the employer, the individual employee, a majority of employees?

d) Once a decision to contract out has been made, can the plan be amended or the decision reversed?

e) If contracting out is allowed, what happens to the individual who, having worked for a company which contracted out, changes his job?

f) What happens in the event that a firm with an approved private plan gets into financial difficulties, goes bankrupt or goes out of business?

While it is easy to overstate the real difficulties which the above questions raise, it is important in considering the arguments for and against a contributory system to come to some conclusions as to the answers with respect to contracting out.

3) A Compulsory Contributory Program

Aside from the limitations already discussed of a voluntary program or contracting out, the arguments for and against universal compulsory coverage are primarily a matter of philosophy. Where a voluntary program implies similarity to employee pension plans and only limited internal subsidies, universal compulsory coverage points logically to a system of social insurance (see Section II above - Definitions). Compulsory coverage with contracting out represents a position somewhere between a voluntary program and a universal compulsory one, probably closer in its implications to the latter.

C. Arguments For A Contributory Pension Program With Variable Benefits

The arguments fall into two categories:

i) Arguments that a government contributory pension program with benefits above a minimum related to contributions is superior to a flat rate government pension system.

ii) Arguments that the government should provide such a contributory system rather than leave it to private employers, trade unions or industries to supply such a system in conjunction with a flat rate government pension system.

i) Arguments for Superiority of a Contributory Program With Variable Benefits to a Flat Rate Program

1) Most people judge the adequacy for themselves of a pension above a subsistence minimum by comparing it with their income before retirement.

2) Since most people want a pension related to pre-retirement earnings, they would probably be willing to pay more to finance it than for a flat rate pension program. It is probable in the circumstances that a larger average pension could ultimately be paid.

3) A contributory program gives people a stronger feeling of having earned their benefits than a flat rate program.

Although authorities on social security disagree as to the psychological advantages of the contributions feature, it is probable that many Canadian employees would be willing to contribute more to a government pension program with benefits above the minimum than to the existing type of flat rate benefit program.

4) It follows from arguments 2 and 3 that it is probably easier to make a contributory program self-supporting than a flat rate program.

The success of the U.S. program lends weight to this argument. On the other hand, the U.S. program has not operated long enough for that experience to be accepted without reservation.

5) A program with variable benefits related to earnings will tend to provide average benefits related to regional differences in living costs.

Variable benefits are not a full answer to the problem of regional differences in living costs. There are some areas where the relationship between living costs and earnings (and, hence, benefits) is negative rather than positive. And in an area of high living costs, there are many with earnings far below the average for that area. However, on balance this argument does have real merit.

ii) Arguments for Superiority of a Government Contributory Program With Variable Benefits to a Combination of Private Contributory Programs with a Flat Rate Program

The case for a government program rests not only on the positive merits of such a program, but on what are widely regarded as the disadvantages of occupational pension plans. The advantages of a government program or the disadvantages of private programs include the following:

1) The coverage of occupational plans is and will likely remain incomplete. There are four categories of persons outside such plans - the self-employed; employees of organizations which do not have a pension plan; employees who have decided to remain out of optional plans; and employees who have changed jobs too frequently to build up claims or, on leaving a firm, exercise their option to take cash.

In the circumstances, it may be concluded that a government contributory program, utilizing Parliament's power to require membership, could provide coverage for a much larger fraction of the population than employee pension plans are likely to achieve in the next couple of decades.

2) Available statistics would indicate that most persons now covered by private plans who change employment lose any claim to the employer's contributions to the employee pension fund. A government program, by contrast, can provide immediate vesting which is a very real advantage.

3) Most persons now covered by private plans who change employment have the option of taking cash or a deferred annuity for their contributions. Given the option, the vast majority choose cash. A consequence is that people who have worked for several companies may reach retirement age with a very small pension.

Under a government program, by contrast, it is possible as in the U.S. to refuse to allow individuals to take cash in lieu of a deferred annuity.

4) Both private plans and a government program can offset inflation to some extent by basing benefits on the last five or ten years of earnings. However, a private plan has greater difficulty than a government program in arranging for an increase in the benefits of those already retired in order to protect their purchasing power. The increases which have occurred under the U.S. program illustrate this aspect of a government program. Of course, benefits can also be increased to offset inflation under a government flat rate pension program like the current Canadian one.

5) A government contributory program with variable benefits is particularly suited to being extended to provide variable survivor benefits. And the same arguments that are used to justify variable pension benefits in comparison with flat rate benefits also are used in the field of survivor benefits.

The survivor features are one of the most popular aspects of the whole U.S. program. The lack of any directly corresponding feature in Canadian legislation is one of the most striking contrasts between the two programs.

A survivors variable benefit program would seem out of place without a variable benefit pension program. However, some form of flat rate survivors benefit plan is compatible with a flat rate pension program.

6) A government contributory program with variable benefits is also well suited to being extended to provide benefits for the totally and permanently disabled.

While the means test disability benefit program is a great step forward in Canadian social welfare legislation, the maximum and average benefits are presumably more limited than could ultimately be provided under a contributory program with variable benefits.

D. Arguments Against a Contributory Program With Variable Benefits

The arguments against a contributory program with variable benefits likewise fall into two categories:

i) Arguments emphasizing the disadvantages of such a program.

ii) Proposals for minimizing the disadvantages of employee pension plans and the government flat rate program.

i) <u>Arguments Emphasizing the Disadvantages of a Contributory Program</u>

The analysis is based largely on two memoranda prepared by the Canadian Life Insurance Officers Association. The arguments and comments on them are as follows:

1) The fundamental aim of compulsory social security measures should be to provide a basic floor of protection against want. This basic floor should be the same for all persons rather than related to previous earnings.

The argument has to do with a fundamental question of philosophy - what should be the role of government in the pension field? If one accepts the concept that the government's role should be confined to providing a basic minimum, there is, of course, no place for a goverment contributory program with variable benefits.

2) Above the basic floor, the individual should be free to decide whether and in what way he wishes to build additional protection.

This is the argument - not applicable to a government voluntary contributory program - against government compulsion of the individual. Four categories of persons might oppose the compulsory features of a program:

a) Those who thought they could not afford to contribute.

b) Many of those who were satisfied with the flat rate benefit plus whatever personal savings and /or benefits from occupational pension plans they might expect to have.

c) Those who prefer to save for old age in other ways. A farmer or a small business man, for example, might prefer to save by investing in a farm or business.

d) Many newly married couples who might consider other expenditures more urgent than saving for old age.

Although the arguments against compulsion are difficult to assess because they are subjective, it is relevant that virtually no one objects to the compulsory features of the present flat rate pension program. It is also relevant that many private plans, once established, are compulsory for new employees.

Contracting out and exemption for certain categories of persons (e.g. under the U.S. program, medical doctors) are advocated by some people partly to meet objections to the compulsory features of a government contributory program.

3) A compulsory wage related pension program would encroach on the savings media through which capital is built up to increase productivity. The contributions reduce net income out of which to save and the program itself reduces incentives to save in other ways.

The effect on savings, investment and productivity depends on a complicated series of factors including the following:

a) The coverage of the contributory government program.

b) The extent of benefits and the method of financing.

c) The reactions of employers and employees to the program.

d) The type of investments of private pension plans and the size and type of investments of a government fund.

e) The way in which government borrowing policies are affected by the existence and size of the government fund.

f) The expectations of employers and employees concerning future business conditions and the future stability of the price level.

An analysis of the above factors and of the history of the U.S. and British programs indicates that whether or not a government program would reduce savings and investment in the long run would depend on the circumstances and nature of the program. Five further comments are also relevant to this question:

a) The ability of a nation to increase its productivity is the foundation on which both increased private and government pensions are paid. A difference is that private pension funds are largely invested in ways that directly increase economic productivity; government pension fund investments may or may not do likewise.

b) Accumulation of capital through savings is only one method of increasing economic productivity.

c) On the whole there is good reason to believe that Canada's economic productivity will continue to increase at an encouraging rate.

d) There is more reason to believe that Canada will have a favourable overall growth of private saving than that the distribution of those savings will be in the best long-run interests of the nation.

e) To the extent that a government program diverted savings from private channels, it would extend the government's control over capital investment. Whether and in what ways this is advisable are debatable questions.

4) If the government program were fully funded, the fund would lead to unjustified pressures for higher benefits. If it were not, succeeding generations would be committed to over-payments to finance the benefits of current beneficiaries. Some of the problems and possibilities involved in this respect are analysed above (see Section III, E, Financing; F, The Trust Funds and Actuarial Soundness).

5) It would be difficult in Canada to cover, in an earnings related program, numerous persons in outlying areas or seasonal occupations.

The administrative difficulties of securing contributions are greatest for some categories of the self-employed. It should be noted in this respect that the very real problems of administration regarding the self-employed have been largely solved in the United States. These problems might be somewhat more difficult to deal with in Canada, but ultimately, if the self-employed really favoured the program, an equal degree of success could be achieved in this country.

6) The cost of administering a wage related program would be high in a country of Canada's size with its widely scattered population and large seasonal and other labour mobility.

Administrative costs are about five times higher under the U.S. contributory than under the present Canadian flat rate program. The smaller scale of Canadian operations would probably mean that a Canadian contributory program would be relatively somewhat more expensive to administer than the U.S. program. However, co-ordination with the present flat rate program would help to keep down the added cost.

7) A wage related program would have its greatest coverage in the "richer" provinces and among persons in the higher income groups. Such persons have the easiest access to voluntary means of supplementing their basic pension.

While the latter half of this argument is valid, its importance depends on the premise underlying the government's role. If the government should be confined to helping the low income groups, a needs tested pension or a flat rate pension is the appropriate approach. But those who favour a wage related program are reasoning from a different premise - namely, that above the basic minimum, pension benefits should increase with contributions, though not necessarily in proportion to them.

Whether the coverage would be greater in the richer provinces would depend on the legislative provisions for coverage of various occupational groups.

8) The introduction of and subsequent amendments to a government program would create transitional and other difficulties in the administration of private pension plans.

It is relevant that actuaries who are opposed to a government contributory pension program with variable benefits have indicated that these difficulties would be minor in character.

9) The U.S. program was designed to furnish "floor" benefits, taking some account of prior earnings levels. Since regional income disparities are only about half as wide in Canada as in the U.S., however, it is questionable whether a graded benefit program should be introduced here.

The available statistics neither entirely support nor disprove this argument. On the one hand, it is doubtful that the regional range in average incomes is much less in Canada than the U.S. But, on the other hand, statistics are not available on variations around the averages, which are of equal importance.

ii) Proposals for Minimizing the Disadvantages of Employee Pension Plans and the Government Flat Rate Program

With respect to these related issues, the following points can be made:

1) Extensions of Coverage

In view of the tax concessions now provided, there is little more that the federal government can be expected to do to promote the introduction of private pension plans. Further extensions of coverage must depend on competition among insurance companies and similar organizations.

2) Vesting

As long as one accepts the use of the Income Tax Act to accomplish desirable social objectives unconnected with the raising of revenue, vesting can be achieved by its use.[1] There are no important technical difficulties in ensuring that individual pension rights are preserved on transfer of employment. Consequently, the tax exemption provisions for private pension plans could require early and full vesting of employee contributions.

3) Survivor and Disability Benefits

The Canadian Life Insurance Officers Association suggests the possibility of:

a) replacing substantial portions of mothers' allowances by payment through the Family Allowances system of higher flat benefits for children:

i) where the father has died and the mother has not remarried;

ii) where the father is totally and permanently disabled.

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[1] Editor's Note: It should be noted that the current criteria for eligibility of pension plans under the Income Tax Act (see above, page 47) do not include any requirement for vesting prior to retirement.

b) removing the present means test for totally and permanently disabled at, e.g., age 55 or 60 after which it is unlikely that the disabled person will return to work.

These proposals are, of course, consistent with the philosophy underlying the Old Age Security and Family Allowances Acts. The advantages and disadvantages parallel those that apply to the present flat rate pension program.

4) Age Flexibility for Flat Rate Pension

Both the Canadian Life Insurance Officers Association and the Canadian Welfare Council have suggested the possibility of lowering to 65 the age of eligibility of, for example:

a) recipients of blind and disabled persons allowances;

b) persons with a recent record of no more than casual earnings.

Three comments may be made with respect to these proposals:

a) They would lead almost inevitably to lowering the age of eligibility of all to 65.

b) They would require some form of retirement test which, as in the U.S. program, would probably be unpopular.

c) They raise the question as to whether lowering the age of eligibility has as high a priority as other ways of increasing payments to the aged. The question of age or ages of eligibility is a complex topic on which there is need for extended research.

5) Widows

None of the above proposals provides benefits to women without dependent children who become widows between ages 50 and 65. Such people present a particular problem because they usually have extreme difficulty in finding steady employment.

Two possibilities exist with respect to this problem:

a) To the extent that social and old age assistance are inadequate, they should be strengthened.

b) A flat rate survivors benefit program could be introduced, financed either on a similar basis to the flat rate pension or by federal grants to provincially administered programs. It is likely that an exclusively federal program of this kind would require a constitutional amendment.

APPENDIX A

AMERICAN OLD AGE, SURVIVORS AND DISABILITY INSURANCE

SELECTED DATA ON THE DISABILITY PROVISIONS

The following data relate to the first six months of 1957, the period immediately prior to the beginning of disability benefits:

1) Nearly 114,000 persons applied either for the disability benefit or to have their wage record "frozen". Fifty-eight per cent of the applications were allowed; 42 per cent were refused.

2) Of those whose applications were allowed, 83% were aged 50 to 64. (Because disability benefits began at July 1, 1957, the total was weighted unduly by the 50 to 64 age group for whom determination of eligibility was most urgent.)

3) Of those whose applications were rejected, about 75% did not meet the medical requirements for disability. Disability is defined for purposes of the program as the "inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration".

4) A child's disability benefit is available to a person under age 18 who is disabled or to a person who had become disabled before reaching age 18. Of the applications for this benefit, 89% were allowed.

   Approved applicants for this benefit over 18 years of age classified by age as follows:

Age Group	Percentage
18 - 24	22%
25 - 39	51%
40 and over	27%

5) The three leading classes of disability of approved applicants for disability benefit or wage record "freeze" were:

   a) diseases of the circulatory system - 32%
   b) diseases of the nervous system and sense organs - 24%
   c) infective and parasitic diseases - 9%

6) The three leading classes of disability of approved applicants for the child's disability benefit were:

   a) mental deficiency - 43%
   b) cerebral spastic infantile paralysis with mental deficiency - 16%
   c) cerebral spastic infantile paralysis- 10%

AMERICAN OLD AGE, SURVIVORS AND DISABILITY INSURANCE

EFFECTS OF THE RETIREMENT TEST

If it were not for the retirement test, all old age benefits under the present legislation would be paid at age 65 (except, for those women who so choose, at or after age 62). For the years 1940 to 1957, the actual average age of retiring men has been 68.8 (3.8 years higher than the minimum) and of women has been 67.3 (2.3 years higher than the minimum).

Although the differences suggest the effect of the retirement test as such on average retirement age, the figures year by year indicate some influence of amendments to this and other aspects of the program during the period, for example:

a) an increase from $15 to $50 per month in the amount of allowable earnings (1950)

b) a new basis for establishing coverage (1950)

c) increases in current and future benefits (1950)

d) an increase from $50 to $75 per month in the amount of allowable earnings (1952)

e) reduction from 65 to 62 in the minimum retirement age for women (1956).

In the light of the Canadian program's provision for pension at age 70, figures on the percentage distribution by age of those retiring under the U.S. program are of particular interest. Changes in the distribution are subject, of course, to some of the same influences identified in points (a) to (e) above. Table A (see p.80) gives the OAS and DI percentage distribution.

Why do workers retire? A 1951 study by the U.S. Bureau of Old Age and Survivors Insurance reveals the following with respect to live male beneficiaries:

1) Only 3.8% retired voluntarily and in good health.

2) Forty per cent retired voluntarily because they felt unable to work longer.

3) Forty-four per cent lost their jobs. Within this group, the principal sub-categories were:

   a) 21% - position discontinued because the work was reorganized, or because the employer went out of business, or for other reason;

   b) 11% - worker had reached the "normal" retiring age;

   c) 6% - worker considered by the employer as being unable to work.

TABLE A

O.A.S. AND D.I. - PERCENTAGE DISTRIBUTION BY AGE OF RETIRING WORKERS

MALE AND FEMALE, 1940-56

Year	PER CENT OF RETIRING WORKERS AGED																
	Male							Female									
	65	66	67	68	69	70 and over	Age 65 and over	62	63	64	65	66	67	68	69	70 and over	Age 65 and over
1940	17.9	23.6	19.4	10.5	4.4	24.2	100.0	-	-	-	21.9	26.1	21.2	9.9	3.9	17.1	100.0
1941	23.7	12.7	9.3	8.1	7.8	38.5	100.0	-	-	-	30.2	15.0	11.0	8.3	7.3	28.2	100.0
1942	24.1	14.1	9.4	7.8	6.7	37.9	100.0	-	-	-	31.1	16.2	10.3	8.3	6.6	27.5	100.0
1943	22.2	14.4	10.3	8.2	7.1	37.8	100.0	-	-	-	30.3	17.0	11.6	8.3	6.7	26.2	100.0
1944	18.5	13.6	10.6	9.2	7.9	40.1	100.0	-	-	-	27.9	17.3	11.2	9.0	7.2	27.5	100.0
1945	17.0	12.8	11.1	9.9	8.8	40.3	100.0	-	-	-	25.4	14.9	11.1	9.4	8.3	30.9	100.0
1946	17.3	12.9	10.8	9.9	8.6	40.4	100.0	-	-	-	23.1	14.5	10.7	9.9	8.7	33.1	100.0
1947	25.4	12.9	10.1	8.8	7.9	34.9	100.0	-	-	-	27.6	12.9	11.1	9.7	8.2	30.4	100.0
1948	28.9	14.1	9.5	8.2	7.1	32.1	100.0	-	-	-	30.6	13.6	10.1	9.3	7.7	28.7	100.0
1949	30.4	14.5	10.3	7.9	6.9	29.9	100.0	-	-	-	32.3	14.2	10.2	8.4	7.6	27.3	100.0
1950	22.8	14.5	11.0	9.8	7.7	34.1	100.0	-	-	-	24.0	16.9	13.6	11.3	8.6	25.6	100.0
1951	40.2	12.1	8.4	6.6	5.7	27.0	100.0	-	-	-	49.3	11.7	8.3	6.5	5.2	19.1	100.0
1952	32.8	12.9	8.3	7.1	5.6	33.3	100.0	-	-	-	37.8	12.1	7.9	6.8	5.6	29.8	100.0
1953	39.3	12.6	9.0	7.3	5.9	25.9	100.0	-	-	-	46.7	11.8	8.1	6.0	5.3	22.0	100.0
1954	38.4	14.1	8.5	7.4	5.7	25.8	100.0	-	-	-	46.0	13.0	7.8	6.2	5.0	22.1	100.0
1955	38.2	11.6	7.7	5.9	5.0	31.2	100.0	-	-	-	47.6	12.1	7.6	5.6	4.7	22.3	100.0
1956	32.5	11.5	7.4	6.7	5.2	36.7	100.0	14.4	15.4	17.4	27.1	6.1	3.4	2.7	2.1	11.3	100.0

One effect of the retirement test has been to reduce the cost of the program. At July 1, 1958, about 10-1/2 million people age 65 or over could qualify for benefits. Actuarial estimates indicate that:

1) Benefit payments would increase by about $2 billion in the first year if all insured individuals and their dependents and all survivors affected by the test drew benefits.

2) In the long run, abolition of the test would raise the level premium cost from 8 to 9.2%, an increase of 15%.

LIST OF TABLES